

June 21, 2024

Ms. Rajinder Sahota
Deputy Executive Officer, Climate Change and Research
California Air Resources Board
1001 I Street
Sacramento CA 95814
[Submitted electronically](#)

Dear Ms. Sahota:

Subject: Comments on the May 2024 Cap-and-Trade Program Workshop

The Los Angeles Department of Water and Power (LADWP) appreciates the opportunity to provide comments in response to the Cap-and-Trade program workshop held on May 31, 2024.

1) How the Electrical Distribution Utility (EDU) Allowance Allocation Contributes to Achieving the State's Emission Reduction Goals

LADWP supports continuing the free allocation of allowances to EDUs and maintaining the existing compliance structure where publicly owned utilities (POUs) can directly deposit allocated allowances to satisfy their Cap-and-Trade compliance obligation. This compliance structure has been very effective in protecting electricity ratepayers from the cost of compliance and provides POUs the flexibility to utilize the allowance value to best serve the needs of their community. For example, depositing allowances for compliance conveys the cost benefit of the EDU allocation directly to customers and helps to keep electricity affordable. Affordable electricity is essential for cost-effective electrification within other sectors of the economy, which is a key strategy to help achieve the State's Greenhouse Gas (GHG) emission reduction goals.

The EDU allocation is a convenient and effective way for California Air Resource Board (CARB) to support electric utilities that are making investments to help the State achieve its GHG emission reduction goals. LADWP is modernizing its electric grid to integrate renewable energy and accommodate widespread electrification. The proceeds from the sale of allocated allowances make it possible for LADWP to increase its supply of renewable electricity and fund infrastructure upgrades to support electrification while keeping the cost of electricity reasonably priced for customers.

- Decarbonization of the Electricity Supply: Efforts to decarbonize the electricity supply requires multi-million-dollar investments in new generating resources and infrastructure upgrades over several decades. While LADWP has significantly reduced its electricity generation GHG emissions since the start of the Cap-and-Trade program in 2013, the transformation is still ongoing as LADWP works towards its 100 percent clean energy goal. The EDU allocation both protects LADWP customers from the compliance cost and provides a source of funding to invest in renewable energy, electric grid upgrades, and infrastructure to support electrification.
- Affordable Electricity: The option for POUs to directly deposit allocated allowances into the compliance account protects LADWP customers from the cost of compliance with the Cap-and-Trade program. LADWP has a direct compliance obligation for electricity generating stations it owns and operates. Directly depositing allocated allowances for compliance avoids having to purchase allowances for compliance at market rate and passing that cost through to LADWP customers. This equates to an average electricity rate savings of six percent per year since the start of the program.
- Investing in GHG Emission Reductions: LADWP made early investments to reduce GHG emissions from its portfolio of electricity generating resources. As a reward for reducing emissions, any allocated allowances not needed for compliance can be sold and the proceeds invested to further reduce GHG emissions. This reduce-and-invest cycle benefits LADWP customers by funding investments in clean energy and community programs that reduce emissions without burdening LADWP customers with the cost of those investments. In effect, the Cap-and-Trade program is financially supporting LADWP's transition to a cleaner energy supply, which is beneficial to the State as well as LADWP customers.
- For LADWP, the current Cap-and-Trade program is working as intended to achieve measurable GHG emission reductions. LADWP recommends that CARB avoid making significant changes to the EDU allocation or the use of allocated allowances through 2030, to avoid disrupting utility long-term resource plans.

Below are specific examples of how the EDU allowance allocation benefits LADWP customers and supports programs that reduce GHG emissions.

- A. Allowances directly deposited for Cap-and-Trade compliance avoids the need to increase electricity rates to fund the purchase of allowances for compliance. This benefits all LADWP customers including residential, business, and industrial

customers. For the period 2014 through 2023, the avoided cost associated with directly depositing allowances for compliance amounts to \$1.7 billion in cost savings to LADWP customers. LADWP relies on receiving its annual allocation of allowances; a significant reduction in the allocation or forced consignment of allowances to auction would result in a cost impact to LADWP customers.

- B. The Cap-and-Trade regulation allows EDUs to invest allowance value in GHG reduction projects that are beneficial to LADWP customers and the State. Since 2017 LADWP has invested over \$400 million of AB32 allowance value, or an average electricity rate savings of 1.3 percent per year, in the following programs:

1	Renewable energy including LADWP’s Utility Built Solar, Solar Incentive Program, Shared Solar Program, and Solar Rooftop Program.	GHG emissions reduced: Approximately 230,000 MT CO ₂ e of lifetime GHG reduction from these projects
<p>The Utility Built Solar (UBS) program, which started in 1998. UBS program includes solar projects designed, constructed, and owned by LADWP that are installed on property belonging to LADWP or the City of Los Angeles (City). LADWP coordinates internally to plan, permit, design, procure, construct, and maintain these assets. The UBS program helps LADWP deploy solar resources locally which contributes towards the City’s 100 percent clean, carbon-free energy goal.</p> <p>The UBS program installs 2 megawatts (MW) of solar capacity per year, producing 10 megawatt-hours (MWh) of solar energy per day, and an average of 3310 MWh per year. With over 47 projects, the UBS program has installed a total of 25 MW of solar capacity thus far.</p> <p>The Shared Solar Program enables residential customers living in multifamily dwellings (apartments, condominiums, duplexes) to fix a portion of their electric bill against rising utility costs for 10 years, as well as support renewable energy, help create local jobs, help reduce the carbon footprint of LADWP’s generation portfolio and lessen the impact of global warming.</p>		

2	Energy Efficiency including Commercial Direct Install Program, Commercial Lighting Incentive Program, and Home Energy Improvement Program.	GHG emissions reduced: Approximately 565,000 MT CO ₂ e of lifetime GHG reduction from these projects.
<p>The Commercial Direct Install (CDI) Program targets the commercial market sector, including small, medium, and large business customers in the LADWP service territory, offering upgrades to targeted systems, including lights, water, and natural gas. LADWP partners with Southern California Gas Company on CDI projects, with LADWP as the lead utility. This program identifies and implements the lowest cost options for reducing emissions by integrating electric, water, and natural gas efficiency measures. LADWP leverages strategically located community-based organizations (CBOs) to market and implement the CDI Program. The intended design maximizes the electric, water, and natural gas cost savings.</p> <p>The program provides services that help customers transition to a low-carbon, clean energy economy by promoting their business efficiency. It partners with customers to maximize the emissions reductions from their energy savings efforts. Cutting back on energy consumption reduces the amount of electricity generated by conventional power plants, subsequently reducing the amount of fossil fuels burned each day. Each measure incentivized under CDI is designed for reduced energy usage to lower generation loads. It helps customers fulfill their roles in realizing the transformation throughout the electric grid and ultimately throughout the economy.</p>		
3	Transportation Electrification including electric vehicle chargers and infrastructure.	GHG emissions reduced: Approximately 905,000 MT CO ₂ e of lifetime GHG reduction from these projects.
<p>LADWP recognizes that increasing public chargers is vital to increasing Electric Vehicle (EV) awareness and EV adoption. An increase in visible public chargers will help promote market growth in low-income communities where many LADWP customers live in multi-unit dwellings (MUD) or are unable to plug in at home. This is an important factor for LADWP as more than half of LADWP customers reside in MUDs.</p> <p>LADWP's Commercial EV Charging Station Rebate Program provides up to \$5,000 for Disadvantaged Communities (DAC), while rebates for non-DAC</p>		

	<p>are eligible for \$4,000 for installing Level 2 (240V) EV chargers to support public, workplace and MUDs.</p> <p>To support the adoption of medium-and heavy-duty (MDHD) electric fleets, LADWP provides rebates for charging systems supporting MDHD EVs. Charging stations for MDHD vehicles vary slightly in power rating and associated installation costs. Further, both overhead and depot style charging systems are being implemented for use by medium- and heavy-duty fleets to maximize efficiency.</p>
4	<p>Community Grants for emission reduction projects in disadvantaged communities.</p>
	<p>Through the Community Emission Reduction Grants Program (CERGP), LADWP is investing up to \$20 million in grants for local projects that help reduce emissions in the Los Angeles communities hardest hit by pollution sources, such as refineries and truck traffic. Over the course of six years, from 2020 through 2026, LADWP is providing grants ranging from \$100,000 to \$500,000 per project to help fund innovative projects that reduce emissions in the Harbor and Northeast San Fernando Valley communities, located in Los Angeles Council Districts 2, 6, 7 and 15. Eligible emission reduction projects must comply with AB 32 requirements. Awarded projects include, but are not limited to, electrification of equipment, EV purchases, and installation of EV chargers, cool roofs, solar panels, and solar shade structures.</p>

The majority of these GHG reduction projects will provide direct environmental benefits, regardless of project location. However, LADWP is committed to providing benefits to those who are impacted the most by pollution in the low-income and disadvantaged communities (DAC). At least 60 percent of the GHG reduction projects funded by LADWP’s allowance auction proceeds are in census tracts categorized as CalEnviroScreen (CES) 4.0 Top 25 percent, with the average CES 4.0 overall percentile score of 74.

2) Feedback on select questions about EDU allocation posed at the workshop:

A. Is the current EDU and NGS allocation sufficiently aligned to promoted state electrification goals?

Yes, within LADWP's service territory, the current EDU allowance allocation is supporting the State's electrification goals, as discussed above.

B. How should EDU and NGS allocation be set post-2030 given decreasing Program allowance budgets?

While certainty that the Cap-and-Trade program and EDU allowance allocation will continue beyond 2030 is important, it is too early to establish a specific allocation given the uncertainty in the electricity demand and electricity supply forecasts. LADWP recommends waiting until 2027 to establish the EDU allowance allocation for the post-2030 period.

Dispatchable generation is essential to maintain a reliable and resilient electric grid that our customers can rely on. LADWP is evaluating the potential use of hydrogen to generate electricity in the future; however, the feasibility is still uncertain. Electricity generating units capable of co-firing hydrogen currently exist, but there are no known utility scale electricity generating units capable of running on 100 percent hydrogen. In addition, development of a commercially available supply of hydrogen and the infrastructure to transport it to the electricity generating units is still a work in progress. LADWP believes it is prudent to wait a few years until there is more certainty as to what electricity generating resources will be available to supply the electric grid, before establishing the EDU allowance allocation.

C. Should there be any additional limitations on the types of GHG reduction projects that can be funded with EDU or NGS allocated allowance value?

No, LADWP recommends no changes to the existing list of project types at this time. Maintaining flexibility in the use of allowance value is important to adjust to the changing needs of the POU and the community over time.

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In closing, LADWP appreciates the opportunity to provide comments. If you have any questions, please contact Mses. Andrea Villarín or Ms. Cindy S. Parson, of my staff, at (213) 367-0409 or (213) 367-0636, respectively.

Sincerely,

Katherine Rubin
Director of Corporate Environmental Affairs

CP:ar

c: Mr. Matthew Botill, CARB
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