CALIFORNIA MUNICIPAL UTILITIES ASSOCIATION

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RE: Comments on May 31, 2024, Workshop on Potential Amendments to the Cap-and-Trade Regulation

The California Municipal Utilities Association[1] (CMUA) appreciates the opportunity to provide these comments on the California Air Resources Board's (CARB's) May 31, 2024, Cap-and-Trade (Regulation or Program) workshop (Workshop).

CMUA represents California's local publicly owned utilities (POUs), which are governed by locally elected boards and are accountable to the communities which they serve. CMUA's member agencies are committed to maintaining safe, reliable, and affordable electric service in a manner that supports the state's climate goals. Beyond providing safe, affordable, and reliable electric service, POUs provide a range of community benefits, including programs and services that support their local communities. In this capacity, POUs are partners in the efforts to meet the state's clean energy and greenhouse gas (GHG) reduction goals.

POUs Are Not-for-Profit Public Service Agencies

POUs are agencies providing critical electric services. As not-for-profit public service agencies, POUs use allowance value solely for the benefit of their ratepayers, both to mitigate the cost of compliance with the Program and to help fund clean energy programs. Many POUs use allowance proceeds to invest in renewable or zero-emission projects that directly reduce GHG emissions, and some are using proceeds to develop clean energy programs to reduce the cost of electric vehicle (EV) charging, build public EV charging infrastructure, and promote building electrification, among many others. Additionally, POU flexibility in use of the allowance value provides the opportunity to better manage customer impacts by putting that funding toward the most cost-effective forms of abatement and emissions reductions.

[1] The California Municipal Utilities Association is a statewide organization of local public agencies in California that provide electricity, water and wastewater service to California consumers. CMUA membership includes publicly owned electric utilities that operate electric distribution and transmission systems. In total, CMUA members provide approximately 25 percent of the electric load and approximately 75% of water service in California.

Allowance Allocation to POUs is for the Benefit of POU Ratepayers

Allowance allocation to POUs is an allocation on behalf of POU ratepayers. For many POUs, any reduction in allowance allocation will result in an increase in costs that must be charged to their ratepayers. Under the Program, POUs are regulated entities through their ownership of electric generation and through power purchase agreements that include emissions costs in the price. POUs must set rates based on the cost of service and the primary source of funding comes from rates. If CARB cuts allowances to POUs, many POUs will be forced to raise rates to cover the loss of these allowances. For example, based on the May 2024 allowance price, reducing POU allocations by 10 million allowances results in a cost increase of serving POU customers by more than $37 million.[2]

Many POUs serve significant low-income and disadvantaged communities and as such, a cost-of-service increase would be particularly difficult for customers who are most vulnerable and least able to afford higher electricity costs. For example, as noted in recently submitted comments, 11 of the 14 communities served by the Turlock Irrigation District (TID) are classified as Disadvantaged Communities according to CalEnviroScreen.[3] TID is not the only POU with significant low-income and disadvantaged communities in its service territory. Merced, Modesto, Riverside, Los Angeles, Imperial Irrigation District, Colton, Needles, Banning, Lassen, Gridley, Redding, and Trinity are also utilities that serve a high percentage of low-income communities within their service territories. It is critical that California policy not impose undue cost increases in these communities.

CARB should also consider the impact of higher energy costs on the state's water users. In 2012, California became the first state in the nation to establish a human right to water in statute.[4] As such, California recognizes that every human being has the right to safe, clean, affordable, and accessible water for consumption, cooking, and sanitary purposes. A significant amount of electricity is used to deliver and to heat water. Because the bulk of California water service is provided by not-for-profit public water agencies, policies that cause an increase in electricity costs to water agencies cause a direct increase in costs to water customers.

[2] May 2024. *California Cap-and-Trade Program Summary of California-Quebec Joint Auction Settlement Prices and Results*, available at: https://ww2.arb.ca.gov/sites/default/files/2020-08/results_summary.pdf.
[3] May 31, 2024. *TID Information Comments on Allowance Allocation, RPS Adjustment and POU Consignment*.
[4] Assembly Bill 685, Eng. September 25, 2012. http://www.leginfo.ca.gov/pub/11-12/bill/asm/ab_0651-0700/ab_685_bill_20120925_chaptered.pdf .

<u>Comments/Responses to Questions Presented at the Workshop</u>

- **<u>Is the current EDU and NGS allocation sufficiently aligned to promote state electrification goals?</u>**

In addition to mitigating the cost of compliance with the Program that would otherwise be borne by POU ratepayers, POUs use allowance revenue to fund projects and programs that help serve the state's clean energy goals. Many POUs use allowance value to invest in renewable purchases. Some POUs have also used allowance value to promote transportation electrification through incentives for public, residential and commercial electric vehicle (EV) charging infrastructure and building electrification through incentives for electric heating, cooking, and water heating technologies. Without the availability of allowance value, many POUs would have to increase rates to continue offering such programs.

The electric distribution utility (EDU) allocation counters increases in electricity costs that otherwise would have been imposed on POU ratepayers. Affordable and reliable electric service is key to maintaining and growing support for California's electrification goals. For example, as recently discussed by U.C. Berkeley researchers, high electricity prices may contribute to low heat-pump adoption in California.[5] Every allowance allocated to POUs is directly applied to the benefit of ratepayers. Any reduction in the number of allowances allocated will limit POUs' ability to maintain affordable electricity service and advance the state's clean energy goals.

To date, the Program has taken care to avoid or minimize the potential for increasing energy costs. We encourage CARB to continue to prioritize ratepayer protection in this rulemaking and carefully consider the increase in electricity costs that would result from reductions in allowance allocation and restrictions on the use of allowance value.

- **<u>Should there be any additional limitations on the types of GHG reduction projects that can be funded with EDU or NGS allocated allowance value?</u>**

CMUA sees no merit in imposing additional restrictions on the use of allowance value. POU allowance allocation and flexible use of allowance value acts as an important source of cost abatement. This abatement is provided in a variety of ways, as described above, including depositing allowances for compliance to mitigate cost impacts associated with the Program and by monetizing allowances for targeted programs, renewable energy investments, and emission reducing projects. Every POU and community it serves is unique, with a unique set of customers served, energy resources, and optimal strategies to decarbonize electricity and energy end uses. Continuing to allow for flexibility in how POUs can use allowances is critical for supporting the most cost-effective and community-appropriate strategies for decarbonizing the POU electricity systems and meeting California's climate goals.

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[5] *Davis, Lucas.* "Why Are Heat Pump Sales Decreasing?" *Energy Institute Blog,* April 29, 2024, https://energyathaas.wordpress.com/2024/04/29/why-are-heat-pump-sales-decreasing/.

Limitations on the use of allowances and allowance value were the object of significant discussion during the 2018 Cap-and-Trade Rulemaking.[6] CARB should recognize that following the 2018 rulemaking, POUs developed plans and programs that were funded by expected allowance allocations between 2024 and 2030. Making changes midway could adversely impact many of these plans, either by putting them at risk or increasing ratepayer costs. Additionally, making such a change midstream creates further uncertainty regarding the Program, calling into question the certainty and duration of CARB's regulations.

CARB staff may also be considering changing the current Regulation to impose a requirement that POUs consign 100% of their allocated allowances to the state auctions. CMUA opposes this change because it will increase the costs of participating in the program without providing any emission reduction benefits. Not only will such a requirement increase program compliance costs by necessitating the creation of procedures to implement the consignment requirement, but it will also needlessly complicate the program processes. That is because a key distinction between POUs and other California EDUs is that POUs retained ownership over their generating assets. As owners of generation, POUs are the regulated party and in many cases submit allocated allowances for compliance. It is unnecessary to force an additional step by requiring POUs to consign all allowances, wherein they will then be required to procure allowances for compliance. Some CMUA members have found participating in the state auction—and in particular, the associated administrative processes and costs—to be an expensive and cumbersome process, that can be avoided under the current structure of the Program.

CMUA understands that CARB may be considering mandatory consignment for multiple reasons, such as avoiding the administrative complexity of verifying CAISO retail sales and aligning consignment requirements across all EDUs in the state. However, neither of these would justify the application of mandatory consignment to POUs. To the extent CARB is seeking to improve the process to verify CAISO sales, there are more effective mechanisms for accomplishing this outcome, such as coordinating with CAISO and POUs to ensure that sufficiently detailed data are available to CARB staff. Moreover, parity for the sake of parity should be avoided; POUs and IOUs have different governance structures and motivations, and there are significant benefits to ensuring POUs, through their locally elected representatives, retain discretion to use allowance allocations and value in ways best suited to meet the needs of their ratepayers and communities.

- **<u>How should EDU and NGS allocation be set post 2030 given decreasing Program allowance budgets?</u>**

CARB should send a clear signal that allowance allocation to the EDUs will continue past 2030. While CMUA appreciates that CARB is opening the discussion of post-2030 allowance allocation at this time, over the next few years it is likely that additional information will become available that could better inform that process. Acknowledging the need to address post-2030

[6] See https://ww2.arb.ca.gov/our-work/programs/cap-and-trade-program/cap-and-trade-regulation.

allowance allocation is the first step to providing regulatory certainty that is fundamental to maintaining stability of the Program. CMUA encourages CARB to balance the need for more current information, while ensuring that the any outstanding issues are resolved with sufficient lead time to ensure that there is no gap in the regulation.

Conclusion

CMUA appreciates the opportunity to provide these comments. CMUA aligns with CARB and California policymakers in prioritizing electricity affordability as part of the state's approach on climate change and equity. Accordingly, CMUA encourages CARB to carefully consider any amendments to the Program that risk increasing electricity costs. Reductions in POU allowance allocations will directly impact ratepayers in California at a time when Californians are also facing rising costs of living. As stated above, these impacts are often felt most by the most vulnerable customers. Further, in considering any changes to the Program, CARB must bear in mind the impact that electricity rates will have on statewide consumer interest in electrification. Electrification can be a critical source of emissions reductions across sectors, but higher electricity prices will deter consumers from electrifying their vehicles, homes, and businesses. Preserving the POU allowance allocation helps avoid electricity rate or bill increases, while also encouraging electrification that is necessary to meet California's decarbonization goals.

CMUA looks forward to collaborating with CARB and other stakeholders in the development of a cost-effective and technologically feasible Program design.

Respectfully submitted,

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