December 15, 2023

Rajinder Sahota
Deputy Executive Officer
California Air Resources Board
1001 I Street
Sacramento, California 95814

RE: Joint Utilities Group Comments on Potential Updates to the Linked California Cap-and-Trade Program and Québec Cap-and-Trade System

Dear Ms. Sahota:

The "Joint Utilities Group" [1][2][3][4][5](JUG) appreciates the opportunity to offer comments on the November 16, 2023, workshop (Workshop) jointly hosted by the California Air Resources Board (CARB) and the Québec Ministère de l'Environnement, de la Lutte contre les changements climatiques, de la Faune et des Parcs (MELCCFP, the Québec Ministry of the Environment, the Fight against Climate Change, and of Wildlife and Parks) to discuss modeling and potential updates to their respective Cap-and-Trade Regulations (Regulation or Program). The JUG consists of investor-owned utilities, publicly owned utilities (POUs), and electric cooperative utilities in California. We look forward to continuing to work with your staff and other stakeholders in the public process to design modifications to the Program that will help facilitate the achievement of California's ambitious climate goals while maintaining energy reliability and minimizing cost impacts to California residents and the economy.

The JUG believes the Program should continue to play an important role in the State's emissions reduction portfolio and generally supports modifications that will support achievement of climate

[1] Pacific Gas & Electric Company, San Diego Gas & Electric Company, Southern California Edison Company, Sacramento Municipal Utility District, Turlock Irrigation District, Modesto Irrigation District. the Northern California Power Agency, the California Municipal Utilities Association, Golden State Power Cooperative, M-S-R Public Power Agency, and Southern California Gas Company.

[2] The Northern California Power Agency (NCPA) is a nonprofit California joint powers agency established in 1968 to construct and operate renewable and low-emitting generating facilities and assist in meeting the wholesale energy needs of its 16 members: the Cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, Shasta Lake, and Ukiah, Plumas-Sierra Rural Electric Cooperative, Port of Oakland, San Francisco Bay Area Rapid Transit (BART), and Truckee Donner Public Utility District—collectively serving nearly 700,000 electric consumers in Central and Northern California.

[3] The California Municipal Utilities Association is a statewide organization of local public agencies in California that provide electricity and water 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 in California.

[4] Golden State Power Cooperative (GSPC) is the association representing California's rural electrical cooperatives: Anza Electric Cooperative, Plumas-Sierra Rural Electric Cooperative, and Surprise Valley Electrification Corp.

[5] M-S-R Public Power Agency is a public agency formed by the Modesto Irrigation District, the City of Santa Clara, and the City of Redding

goals through incremental, cost-effective emission reductions. In the comments below, the JUG explains why CARB should expand its initial modeling, focus on cost containment in scenario selection, and maintain critical market design elements such as banking flexibility.

Allowance Price Modeling Should Align with the Scoping Plan and Recognize Uncertainties.

Modeling of allowance budget scenarios and associated impacts on emission reductions and allowance prices is critical to inform policy decisions around updating the Program. The UC Davis modeling presented at the November 16 workshop was a good first step. In particular the modeling helped illustrate how the program end date affects allowance supply, demand, and prices. For example, the modeling suggested that ending the program in 2030 would likely result in allowance surpluses but continuing the program through 2045 likely yields deficits and, depending on the scenario, prices near the ceiling. The JUG supports the continuation of the Cap-and-Trade program through 2045 and appreciates its inclusion within this modeling.

However, the modeling was missing key elements, such as the use of carbon capture and sequestration (CCS) and the impact of Federal funding on the costs of CCS and other abatement technologies. In particular, CCS is expected to have a significant role in emission reductions per CARB's 2022 Scoping Plan Update (2022 SPU) and could have a significant impact on Cap-and-Trade allowance prices. CARB recognized this gap multiple times during the workshop, highlighting the need to ensure it is addressed in the future.

The JUG recommends that CARB conduct additional modeling that includes abatement identified in the 2022 SPU that was not considered in the initial modeling. Subsequent modeling work should explain the details of the estimated/forecasted impacts and costs associated with each abatement wedge along with the uncertainty of developing technologies, such as green hydrogen, CCS, etc. Accounting for these uncertainties is needed to understand the range of potential implications with respect to allowance prices and the relative likelihoods those implications will be realized under different allowance budget scenarios, as well as informing strategies to drive adoption in the real world.

Future modeling should also continue to look at the Program post-2030. Any Program changes that are adopted based solely on modeling that stops in 2030 could have unintended adverse impacts on the Program post-2030.

The JUG believes that the current modeling results have limited value and should be viewed as directional only. As such, the JUG strongly recommends that a more comprehensive modeling that is reflective of the 2022 SPU be used when selecting future allowance budgets or suggesting Program-wide changes. Absent a more complete analysis and uncertainty assessment, the extreme cost impacts from the current modeling imply that CARB should be very cautious when considering allowance budget changes to avoid negative unintended consequences.

Cost Containment

The JUG supports existing cost containment tools that help support the cost-effectiveness of the Cap-and-Trade market. Maintaining robust cost containment measures is especially important as CARB looks to increase the ambition of the Program. The JUG recommends a closer evaluation of the importance of the Allowance Price Containment Reserve (APCR) levels to control price increases and allow time for the market to find additional reductions. In particular, the JUG recommends that the APCR allowances be retained and not considered as a source of allowance retirement.

While not specifically referenced at the Workshop, utility allowance allocations are another important form of cost containment. The allowances allocated to the electric distribution utilities (EDUs) are used to help support electricity affordability, reduce load migration/leakage, and also support electrification of other sectors of the economy and the policies listed in the 2022 SPU. As detailed in prior JUG comments[6], changes to utility allowance allocations, as well as changes to current rules governing consignment of allowances of POUs or cooperatives that may significantly increase hardships to ratepayers in the form of increased compliance costs, should be weighed against other opportunities. The JUG emphasizes that the annual allowance allocation to each EDU is for the sole benefit of ratepayers, consistent with the goals of AB 32. A core tenet of the Cap-and-Trade Program's design is to help mitigate the costs of the Program on California consumers; any reduction in allocations to EDUs would increase costs for ratepayers and disadvantaged communities, as well as jeopardizing the affordability of electrification efforts. The JUG acknowledges that the allowances allocated to the EDUs are not intended to fully address electricity rate affordability. However, given the importance of electrification in meeting the state's decarbonization goals, coupled with increasing electricity rates, the JUG believes it is imperative that modifications to the Program not exacerbate the electricity affordability crisis. CARB should ensure that allocation of allowances to EDUs is also part of the post-2030 Program.

Market Monitoring and Market Rules

The JUG supports the current Cap-and-Trade program structure and market rules, as outlined in SB 398. Banking flexibility and holding limits are important tools for market participants and should be continued in order to preserve the motivation for early action by compliance entities. Removing compliance entities' banking flexibility or devaluing banked allowances at this stage could not only have adverse economic impacts for compliance entities, but it could create Program uncertainty and disincentivize early emission reductions, creating a less effective program. Allowance banking flexibility is also essential for small EDUs to be able to save up allowance value to invest in larger scale projects and programs to cost-effectively reduce greenhouse gas emissions.

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[6] See the July 7, 2023 JUG comment letter: https://ww2.arb.ca.gov/approved-comments?entity_id=29081 and the August 17, 2023 JUG comment letter: https://ww2.arb.ca.gov/approved-comments?entity_id=30356&page=1

Should CARB consider changing existing banking rules, the JUG strongly suggests presenting the specific details of any new program design to all stakeholders, in order to ensure that there can be a thorough assessment of the magnitude, logistics, timing, etc. of any proposed changes, for discussion and stakeholder input. In addition, any changes should be implemented gradually to prevent sudden shifts that could jeopardize market stability.

Conclusion

The JUG reiterates its support of a well-designed California Cap-and-Trade Program that aligns with the 2022 SPU's trajectory to achieve statewide decarbonization and carbon neutrality, but that also recognizes the need to ensure electricity affordability. The JUG urges staff to take a holistic approach that analyzes the cumulative environmental and financial impacts of all the potential Cap-and-Trade Program changes.

We look forward to working with CARB to achieve these objectives through the upcoming rulemaking process.

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