Los Angeles Department of Water & Power

BUILDING A STRONGER L.A.

May 8, 2024

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

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

Dear Ms. Sahota:

The Los Angeles Department of Water and Power (LADWP) appreciates the opportunity to provide input on potential amendments to the California Air Resources Board (CARB) Greenhouse Gas (GHG) emissions Cap-and-Trade program. The LADWP offers the following comments in response to the recent workshop on April 23, 2024.

1) The Importance of Allowance Allocation in Achieving the State's Emission Reduction Goals

The LADWP supports the continued free allocation of allowances to Electrical Distribution Utilities (EDU) under the Cap-and-Trade program. The EDU allowance allocation supports investments in renewable electricity and electrification, both of which are key strategies to help achieve the State's GHG emission reduction goals. The suggestion made during the Environmental Justice Advisory Committee presentation that free allocation should be eliminated, would be detrimental to the program. As currently structured, the EDU allocation protects LADWP's customers from the cost of compliance with the Cap-and-Trade program and helps keep electricity affordable. Not only is affordable electricity essential for customers that are struggling to make ends meet, it also helps encourage electrification to ultimately reduce emissions in other sectors.

Decarbonizing 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 relative to the start of the Cap-and-Trade program in 2013, the transformation is still ongoing as LADWP works towards its 100% 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. Benefits of the EDU allocation for LADWP thus far include:

1. Affordable electricity: the option for Publicly Owned Utilities 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.

2. 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.

   LADWP has invested over $400 million since 2017 of AB32 allowance value in the following programs:

   a. Renewable energy including LADWP's Utility Built Solar, Solar Incentive Program, Shared Solar Program, and Solar Rooftop Program.

   b. Energy Efficiency including Commercial Direct Install Program, Commercial Lighting Incentive Program, and Home Energy Improvement Program.

   c. Transportation Electrification including electric vehicle chargers and infrastructure.

   d. Community Grants for emission reduction projects in disadvantaged communities.

3. Supporting electrification within other sectors: LADWP is modernizing its electric grid to integrate renewable energy and accommodate widespread electrification. Electrification is a key strategy to reduce emissions, and affordable electricity is essential for cost-effective electrification. The proceeds from the sale of allocated allowances have made it possible to fund infrastructure upgrades to support electrification efforts while keeping the cost of electricity reasonably priced for customers.

The EDU allocation is a convenient and effective way for CARB to support electric utilities that are making investments to help the State achieve its GHG emission reduction goals.

2) Feedback on Potential Change in Length of Compliance Periods

During the workshop, CARB discussed aligning the final year of each future compliance period with the GHG emission reduction target years (2030, 2040, and 2045) for the purpose of data reconciliation between linked jurisdictions.

In response to the questions for stakeholders:

- LADWP prefers a three-year or longer compliance period to smooth out variability in electricity generation emissions from year to year. A longer compliance period increases the probability that the allowance allocation will cover the compliance obligation and avoid the need to purchase allowances to cover a year with, for example, higher-than-normal emissions due to low hydroelectric generation.

- To align with the GHG reporting regulation verification requirements, it would be best if all compliance periods have the same duration. CARB's GHG emission reporting regulation requires third-party verification of the annual GHG emission reports. The current regulatory design limits use of the same verification body to six consecutive years which covers two 3-year compliance periods, and requires that the verification body visit the reporting facilities at the start of each compliance period. These verification requirements and limits would need to be adjusted to accommodate a change in the length of the compliance periods.

- In general, shorter compliance periods reduce flexibility for compliance entities to procure allowances. The primary market to purchase allowances is the quarterly joint auctions held by CARB. A shorter compliance period would reduce flexibility by requiring more frequent participation in the auctions, probably increase auction settlement prices due to higher demand at each auction, as well as increase the risk of over-subscribed auctions and the potential to not procure enough allowances for compliance.

- If the length of the compliance period is changed, CARB should consider the effect on other program elements such as the annual compliance obligation (e.g., retirement of allowances), and evaluate the holding limit and limited exemption provisions to ensure that enough allowances can be held for compliance when compliance periods of varying lengths are involved.

In closing, LADWP appreciates the opportunity to provide comments. If you have any questions, please contact Ms. Andrea Villarin at (213) 367-0409 or Ms. Cindy Parsons at (213) 367-0636.

Sincerely,

Katherine Rubin
Director of Corporate Environmental Affairs Division

CP:

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