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*Submitted electronically*

May 8, 2024

Ms. Rajinder Sahota
Deputy Executive Officer - Climate Change & Research
California Air Resources Board
1001 I Street
Sacramento, CA 95812

Re: ***Northern California Power Agency Comments on April 23, 2024 Cap-and-Trade Workshop***

Dear Ms. Sahota:

The Northern California Power Agency (NCPA)[1] provides these comments in response to the April 23, 2024 Cap-and-Trade Program Workshop (April 23 Workshop). NCPA appreciates the opportunity to participate in CARB's rulemaking process and provide feedback and insights on potential amendments to the cap-and-trade regulation.[2]

In these comments, NCPA limits its response to issues directly raised during the April 23 Workshop, including the importance of electrical distribution utilities (EDUs) allowances, and potential changes to the current 3-year compliance period.[3] NCPA looks forward to further engagement on other potential amendments to the regulation, including the discussion on allowances for electrical distribution utilities.

**Allocated Allowances Directly Benefit Electricity Ratepayers**

The EDUs play a pivotal role in the state's decarbonization efforts. But equally important to note is that the EDUs must continue to ensure the safe, reliable, and affordable provision of electricity for California's residents, businesses, and industries. The cap-and-trade program allowances that are currently allocated to the EDUs play an important part in electricity affordability in that the value of those allowances are used for the exclusive benefit

1 NCPA's members are 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.

2 NCPA is a California Joint Action Agency, established under Government Code §6500, et seq. in 1968 by a consortium of locally-owned electric utilities to make joint investments in energy resources that would ensure an affordable, reliable, and clean supply of electricity for customers in its member communities.[2] NCPA members include municipalities, a rural electric cooperative, and other publicly owned entities for which the public agency provides such services as the purchase, aggregation, scheduling, and management of electrical energy. NCPA operates and maintains a fleet of power plants that is among the cleanest in the nation, providing reliable and affordable electricity to more than 700,000 Californians.

3 NCPA takes no position, at this time, on other items raised during the April 23 Workshop or Standardized Regulatory Impact Statement, and reserves the right to address other issues in the future.

of electricity customers, and helps to offset additional costs associated with reducing greenhouse gas (GHG) emissions.4 NCPA looks forward to further discussing this important issue with CARB and stakeholders in a future workshop, and developing means by which to ensure that EDUs receive the necessary allowances to cover their cap-and-trade program compliance costs and help to minimize adverse impacts on electricity affordability.

**Compliance Periods Must be Long Enough to Meaningfully Allow for Cost Containment**

CARB is seeking feedback from stakeholders on proposed changes to align the compliance periods (CP) with emissions target years "to support timely application of the accounting mechanism for the net flow of compliance instruments across linked jurisdictions."[5] In order to align the cap-and-trade program more directly with the 2030, 2040, and 2045 emission reduction targets, CARB has proposed 2 options for adjusting compliance periods beginning with CP6. Of these options, should CARB not retain the current 3-year cycle, NCPA believes that only Option 1 would provide sufficient flexibility for covered entities to meet their compliance obligations, while helping to smooth allowance price volatility related to variations in emissions levels due to changes in weather, market conditions, or other variables. In establishing the 3-year compliance periods at the onset of the program, CARB concluded that three-year compliance periods—with interim partial surrenders annually—would appropriately balance the goals of flexibility and environmental integrity.[6]

The three-year compliance cycle is one of the most important flexible compliance and cost control mechanisms available to a compliance entity. During the initial cap-and-trade rulemaking, stakeholders deliberated the merits of longer versus shorter compliance periods. It was decided that a 3-year compliance period adequately balanced the need for program stringency and flexibility. CARB established the 3-year compliance periods in reliance on the advice of the Market Advisory Committee, deliberations with Western Climate Initiative partners, and the example set by the Regional Greenhouse Gas Initiative. That decision was further in response to stakeholder concerns about the fluctuations and volatility in the electricity markets associated with seasonal resources, such as hydroelectric generation. Indeed, the multi-year compliance periods are in place to help with year-to-year variability that may affect the emissions obligation, including issues such as low hydro years.[7]

**Responses to Staff Questions to Stakeholders**[8]

> <u>What should be the ideal length of a compliance period for a linked program considering the state and provincial GHG emissions reduction targets and reporting needs?</u>
>
> NCPA believes that the current 3-year compliance period structure works. However, given CARB's desire to better align the compliance periods with the compliance targets, between the two options presented, NCPA supports Option 1 over Option 2. Two-year compliance periods simply do not afford compliance entities the

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5 Workshop Presentation, p. 14.

6 Proposed Regulation to Implement the California Cap-and-Trade Program; Staff Report: Initial Statement of Reasons, p. IX-33, October 28, 2010.

7 California Cap-and-Trade Program; Final Statement of Reasons, p. 2040, October 2011.

8 Workshop Presentation, p. 27.

flexibility necessary to smooth out electricity procurement variations and control cost impacts for their ratepayers.

Should all compliance periods have the same duration?

It is not necessary for all compliance periods to have the same duration, as long as the durations are known in advance and not unduly short.

What are the benefits of shorter or longer CPs?

NCPA does not believe that there are any benefits to shortening the current 3-year compliance periods. Doing so would negate the ability of some compliance entities to address seasonal fluctuations in their emissions, and in particular, the use of renewable, seasonal electric resources. On the other hand, long compliance periods are effective cost-containment tools for compliance entities, allowing them to plan over variations and fluctuations with minimal impact on electricity rates.

Since its adoption, nothing has changed the importance of ensuring that the compliance periods are sufficiently long enough to take into account those variations and other variables that occur across electricity resource planning and procurement. Any changes to the compliance periods should not shorten the time allowed to level and control compliance costs. Further, should CARB modify the current compliance period, stakeholders should have an opportunity to review and assess how that would impact the annual compliance surrender obligations, obligations under the Mandatory Reporting Regulation, and rules governing auction participation and limitations.

**Conclusion**

NCPA appreciates CARB's thoughtful consideration of these comments and looks forward to ongoing dialogue with CARB staff and other interested stakeholders. Please do not hesitate to contact the undersigned or Scott Tomashefsky at 916-781-4291 or scott.tomashefsky@ncpa.com if you have any questions regarding these comments.

Sincerely,

C. Susie Berlin

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