CALIFORNIA MUNICIPAL UTILITIES ASSOCIATION

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RE: Comments on July 10, 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) July 10, 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.

CMUA recognizes that the Program can provide a cost-effective solution to support the achievement California's increasingly ambitious GHG reduction targets. To date, the electricity sector has delivered significant GHG reductions; as the state looks forward toward its 2030 and 2045 emissions reduction and carbon neutrality goals, the sector is also poised to play a critical role in decarbonizing buildings, transportation, and industry through electrification while continuing to reduce emissions in the power supply. The current Program design takes important steps, through direct allowance allocation to POUs on behalf of their ratepayers, to protect electricity customers from increased rates due to program costs and encourage additional GHG emissions reductions. Continuing a robust and effective Program involves taking the steps necessary to maintain these protections, which are key to ensuring that the Program does not

[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.

exacerbate electricity affordability challenges and pose headwinds to the electrification, and therefore decarbonization, of other sectors.

While the Workshop topics did not specifically address utility allowance allocations, CMUA wishes to reiterate the importance of maintaining the current allocations through 2030 and POUs' flexibility to optimize benefits for their communities. CMUA encourages CARB to address whether and how the program budget options would affect POU allocations and, in turn, the potential impacts of such changes on the state's electrification goals. More broadly, CMUA continues to recommend that each potential change be evaluated for its individual and cumulative impacts on the Program.

Allowance Allocation to POUs is for the Benefit of POU Ratepayers

As CMUA has previously stated, allowance allocation to POUs is an allocation on behalf of POU ratepayers.[2] Moreover, as detailed in the June 21, 2024, comments of the Joint Utilities Group,[3] the current 2021-2030 allocation, as set forth in Table 9-4, is set at a level that reflects the state's 60% RPS procurement requirement by 2030 and the allowable proportions of utilities' RPS portfolios that may be met through resources that are not treated as carbon-free under the Mandatory Reporting Regulation and thus may incur a Cap-and-Trade compliance obligation. Maintaining the existing allowance allocation is necessary to recognize the full range of procurement allowed by the RPS – which is increasingly important as utilities face mounting challenges in meeting escalating procurement targets – and avoid undermining the regulatory certainty that encourages additional decarbonization investments.

If CARB reduces allowance allocations, POUs' ratepayer costs may increase. 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. Additionally, many POUs serve significant low-income and disadvantaged communities. A cost-of-service increase resulting from a reduction in allowance allocation would be particularly difficult for customers who are least able to afford higher electricity costs.

For all populations, CMUA encourages CARB to carefully consider the impact that higher electricity costs would have on California's clean energy goals. As the state continues to advance the goal of building and transportation electrification, policies that cause an increase in the cost of electricity work counter to the broader electrification goals.

[2] June 21, 2024. *CMUA Comments on May 31, 2024, Workshop on Potential Amendments to the Cap-and-Trade Regulation*. https://ww2.arb.ca.gov/system/files/webform/public_comments/15311/CMUA%20Comments%20on%20May%2031%202024%20Cap-and-Trade%20Workshop%206.21.2024.pdf

[3] https://ww2.arb.ca.gov/system/files/webform/public_comments/15196/JUG%20Cap-and-Trade%20May%2031%202024%20Workshop%20Comments%20%2806-21-24%29.pdf

CARB Should Provide Greater Detail on the Source of Allowance Reductions

CMUA appreciates the opportunity for a high-level discussion of allowance budgets and alternatives. Generally, CMUA recognizes the need for continued technological development, and as such encourages CARB to pursue a plan that will maintain current allocation budgets as long as possible. Doing so will help to mitigate potential cost increases while also providing time for greater clean energy technological advancement. For example, emerging technologies like renewable hydrogen, carbon capture and sequestration, and long duration energy storage – each of which has potential to provide significant abatement – are unlikely to be available at scale prior to 2030. Further advances in clean energy technologies are crucial to meeting California's clean energy goals while maintaining affordable electric services.

Based on the Workshop discussion, CMUA understands that proposed allowance reductions will come from the state auction and allowance allocations. However, without more specific detail about whether and how EDU allocations would be affected by the two scenarios presented at the workshop, CMUA cannot fully evaluate the impact that the proposed alternatives will have on POU ratepayers.

CARB Should Release Draft Amendments Prior to Initiating the Formal Rulemaking Process

In order to best inform the development of a 45-Day regulatory proposal, CARB should release draft amendments prior to initiating the formal rulemaking process. Many of the proposals under consideration, including potential changes to utility allowance allocations, are highly complex and nuanced. Specific details will be necessary to allow POUs to fully evaluate and provide input on the individual and cumulative impacts of potential changes on ratepayers. Accordingly, CMUA recommends that CARB release draft regulatory language for public review prior to releasing the formal 45-Day language.

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. Reductions in POU allowance allocations will directly impact ratepayers in California and further challenge the state's clean energy goals. As stated above, these impacts are often felt most by the most vulnerable customers. 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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