

July 7, 2023

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

RE: Potential Program Updates to California’s Cap-and-Trade Program

Pacific Gas and Electric Company (PG&E) appreciates this opportunity to comment in response to the California Air Resources Board’s (CARB) June 14, 2023, joint workshop on potential amendments to California’s and Quebec’s cap-and-trade regulations. PG&E has long supported California’s Cap-and-Trade (C&T) Program and looks forward to engaging with CARB and stakeholders on potential changes to the Program that will enable it to play a key role in helping the State achieve its near and long-term climate goals, as well as continuing to serve as a model for climate action across the globe.

Program Evaluation

CARB’s 2022 Scoping Plan Update (SPU) outlines a feasible, but challenging pathway to deep decarbonization by mid-century. All ‘tools in the toolbox’ will be needed to accomplish this plan. California’s C&T Program is a cost-effective and broad-scope mechanism with significant potential to help achieve carbon reductions. Potential changes to its design must be judiciously considered to help maintain the balance between climate ambition and protecting the economy (especially those most vulnerable) from cost impacts that could threaten the viability of achieving the State’s goals.

Therefore PG&E strongly supports the modeling effort proposed by CARB to conduct an evaluation of allowance budgets and allowance cost estimates under various scenarios. In particular, PG&E supports the inclusion of scenarios out to 2045 – California’s fight against climate change does not end in 2030 (AB 1279 placed carbon neutrality and 85% emissions reductions by 2045 into statute last year), and neither does the SPU’s strategy. Evaluating C&T out to 2045 is appropriate and necessary to properly align the program with the State’s climate ambition. In addition, PG&E agrees with CARB’s proposed approach to consider the impact of allowance banking, and other design features, in the context of this holistic analysis. Finally, PG&E supports CARB’s plan to produce public allowance cost evaluations of the different

program designs it is considering; we expect this will significantly advance stakeholder understanding of the potential impacts of program changes being considered in this rulemaking.

Allowance Allocation

As noted in CARB’s workshop slides, staff may also consider other updates to reflect the State’s climate policies and implementation needs, including utility allocation and ratepayer protections. The allocation of allowances to utilities has been a key part of the success of the C&T Program to-date, by enabling utilities to provide direct benefits and compliance cost protection to their customers, while simultaneously reducing GHG emissions. For the investor-owned utilities, the climate credit issued to customers from C&T allocation revenue provides a progressive benefit that can help protect many low-income customers from overall increased costs while preserving an incentive to lower electricity use and increase energy efficiency. The reasons and basis for freely allocating allowances to both electric distribution and natural gas utilities are just as relevant now as they were when the Program was first adopted in 2011. Furthermore, in light of the potential tightening of the Program to align with the increased ambition in the 2022 SPU, and thus potentially increased compliance costs, free allocation of allowances to utilities is even more important than it was in 2011. PG&E urges CARB to keep these reasons front of mind as it considers any changes to utility customer allocations.

With respect to natural gas utility allocation, CARB should also evaluate if the Program is providing adequate ratepayer protection as the State pursues strategies to decarbonize the natural gas system and support the Short-Lived Climate Pollutant Plan. Since the Board provided this direction to staff in Board Resolution 17-21, the California Public Utilities Commission (CPUC) has since adopted biomethane procurement targets for the natural gas IOUs per SB 1440.¹ The additional cost to ratepayers from this decarbonization policy should be considered when reviewing potential changes to allocations.

Separately, PG&E recommends that CARB evaluate the allowances set aside for the Voluntary Renewable Electricity Program (VREP) to determine if any changes are warranted to VREP given historical and anticipated program uptake.

Market Design

As part of its allowance cost evaluation, PG&E encourages CARB to also develop a scenario with an emissions containment reserve (ECR). We believe a well-designed ECR could help address concerns about “oversupply” by adjusting future caps in a principle-based rather than ad hoc manner, enhancing predictability and market and stakeholder confidence in the program. A well-designed ECR could enhance the overall functioning of the program and better encourage cost-effective emissions reductions across the economy and is thus worth including in CARB’s modeling.

¹ See CPUC’s *Renewable Gas Procurement Decision* (D.)22-02-025

PG&E supports CARB's proposed evaluation of C&T program design changes to incorporate carbon management, including carbon capture and storage (CCS) and carbon dioxide removal (CDR). We agree that CARB's latest Scoping Plan identified a significant need for carbon management in achieving carbon neutrality. The Cap-and-Trade program has the potential to provide additional incentives for such abatement activities where cost-effective, building on existing incentives from the Federal Inflation Reduction Act and CARB's Low Carbon Fuel Standard program.

Alignment with Other Markets

PG&E appreciates CARB's coordination with the California Independent System Operator (CAISO) related to the Energy Imbalance Market (EIM) and the forthcoming Extended Day-Ahead Market (EDAM) for electricity. We encourage CARB to hold discussions with stakeholders on changes to key definitions which could open the door for exploring potential options for improving GHG accounting and reducing electricity leakage. Please refer to the Los Angeles Department of Water & Power's comment letter for additional details on this topic.

Conclusion

PG&E looks forward to participating in the upcoming C&T rulemaking process in support of helping the State achieve its critical emissions reduction targets.

Sincerely,

/s/

Fariya Ali
Air & Climate Policy Manager