Los Angeles Department of Water & Power

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July 7, 2023

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

Dear Ms. Sahota:

The Los Angeles Department of Water (LADWP) appreciates the opportunity to provide comments regarding potential amendments to the California Air Resources Board (CARB) Greenhouse Gas (GHG) emissions Cap-and-Trade program in follow up to the June 14, 2023 Joint California and Quebec Cap-and-Trade Program workshop.

LADWP is a vertically-integrated publicly-owned electric and water utility serving a population of over four million people within the City of Los Angeles and portions of the Owens Valley. LADWP is the largest municipal utility in the state and one of five California Balancing Authorities. LADWP's mission is to supply reliable electricity and water to meet our customer's needs in an environmentally responsible and cost-effective manner.

The presentation and discussion at the June 14 workshop regarding the scope of the upcoming rulemaking was a helpful overview. With regards to the topics of electricity markets and ratepayer protection through utility allocation, LADWP submits the following comments for CARB's consideration.

EDAM and EIM Electricity Market GHG Emissions Accounting

The Western Energy Imbalance Market (EIM) has a GHG emissions leakage issue that has been difficult to solve. CARB's Final Statement of Reasons for the 2018 amendments to the Regulation for the Mandatory Reporting of Greenhouse Gas Emissions states: "Until future modifications to the EIM algorithm allow direct identification of the complete emissions supporting EIM transfers at the time of dispatch, the default emissions factor is the best identification of the emissions rate of these marginal plants and should supplement the emissions reported directly through the current deeming algorithm." To solve the leakage issue, a comprehensive approach to GHG emissions accounting is needed.

In the interest of solving the leakage issue, LADWP recommends that CARB consider the potential benefits of shifting the GHG emissions reporting and compliance responsibility from the generating resources (EIM Participating Resource Scheduling Coordinator) in the non-GHG regulation area, to the electricity purchaser within the GHG regulation area (e.g. California). Adopting a modified interpretation of who the electricity importer or "First Jurisdictional Deliverer" (FJD) is for electricity delivered (without e-tags) into California via the EIM or EDAM markets, would open the door to exploring the feasibility of alternative approaches to EIM and

EDAM GHG emission reporting and compliance that could improve the accuracy of GHG emission accounting and solve the existing leakage issue.

The Western Climate Initiative Program Design document defines FJD as "*The owner or operator of an electricity source in a Partner jurisdiction, or an electricity importer that is jurisdictional to the program authority* ***or the immediate downstream purchaser or recipient of electricity from a non-jurisdictional electricity importer"*** **[emphasis added].** In general, electricity generating resources located outside of California are not subject to California's GHG emissions cap-and-trade regulation, unless they deliver electricity into California. Currently, the EIM optimization model attributes electricity "deemed delivered" into California to specific out-of-state generators selected by the model. Hence, they are designated the FJD and are responsible for GHG emission reporting and compliance for that electricity "deemed delivered" or imported into California. Since the EIM does not utilize e-tags, there is no documentation to track the physical delivery/import to California or who owns the electricity when it crosses the California border. In the absence of physical delivery documentation, the load-serving entity (LSE) within the GHG regulation area who is essentially "the immediate downstream purchaser or recipient of electricity from a non-jurisdictional electricity importer" should be responsible for GHG emission reporting and compliance since the LSE's purchase is what's prompting the electricity to be imported into California.

Modifying the interpretation of FJD to the "immediate downstream purchaser or recipient of electricity" for EIM and EDAM market imports into California would provide the following benefits:

1. The primary benefit would be full and accurate accounting of the GHG emissions (actual atmospheric impact) associated with imported electricity into California via the centralized market, and elimination of inaccurately "deemed deliveries" from specific generating resources to California. An actual GHG emission intensity that captures GHG emissions from the fleet of generating resources dispatched by the market to support transfer of electricity into California (or other GHG regulation area) could be calculated after-the-fact and applied to the electricity import. The GHG emission intensity for the imported electricity could be calculated as the Total GHG Emissions to support the transfer divided by Megawatt-hours (MWh) of electricity purchased by Load within California for each market interval. This approach would solve the leakage issue by capturing emissions from both primary and secondary dispatch of generating resources in the non-GHG regulation area above the base schedule to support transfer of electricity into a GHG regulation area. Solving the leakage issue would eliminate the need for CARB to calculate EIM Outstanding Emissions and withhold the corresponding quantity of allowances from California Electricity Distribution Utilities.
    - Note: currently under the CARB regulation, the Total California Emissions and EIM Outstanding Emissions calculation adjust the GHG emission compliance obligation for EIM imported electricity to match the default Western Electricity Coordinating Council (WECC)-wide average marginal GHG emission factor for unspecified electricity. In effect, the total GHG compliance obligation for EIM imported electricity is equivalent to that of unspecified electricity. The total compliance obligation for EIM imported electricity is subdivided between the "deemed delivered" imports and the EIM Outstanding Emissions.

2. More accurate GHG emissions accounting would reduce GHG costs to California ratepayers. Currently California LSEs bear two GHG costs associated with purchasing electricity from the EIM market: 1) $/MWh in the price of electricity (intended to purchase and retire GHG emission allowances), and 2) California Carbon Allowances withheld from California LSE's allocation of allowances and retired to satisfy the EIM Outstanding Emissions compliance obligation. Having two GHG costs drives up the cost of electricity in California. Full accounting of market GHG emissions (including secondary dispatch) would reduce GHG costs to California ratepayers by eliminating the EIM Outstanding Emissions and retirement of additional carbon allowances. Reducing GHG costs would help maintain an affordable electricity supply, and encourage cost effective electrification within other sectors to support the goals of CARB's Scoping Plan.

3. Shifting the GHG emission reporting and compliance responsibility to EIM Purchasers within California (who are already subject to the GHG regulatory requirements) would eliminate the administrative burden of GHG reporting, verification and compliance on generating resources located outside the GHG regulation area who would not be subject to GHG regulation but for the fact they were assigned "deemed delivered" electricity into California.

4. Shifting the GHG emission reporting and compliance responsibility to the EIM Purchaser would add GHG emissions for this imported electricity to the EIM Purchaser's GHG emissions footprint.

If shifting responsibility for GHG emission reporting and compliance to the LSE within the GHG regulation area is acceptable to CARB, that will open the door for CAISO and stakeholders to analyze the feasibility of the alternative approaches to GHG emission accounting.

The following minor changes in the CARB Regulation for the Mandatory Reporting of Greenhouse Gas Emissions (MRR) would be needed to capture the proposed improvement in accuracy of GHG emissions for EIM electricity imports:

1. MRR section 95111(h)(C) currently requires EIM Participating Resource Scheduling Coordinators to "calculate, report, and cause to be verified emissions associated with **electricity imported as deemed delivered to California** by the EIM optimization model". This proposal would shift the reporting and compliance responsibility from the out-of-state generating resource Scheduling Coordinator to the in-state EIM Purchaser. In effect, GHG emissions for EIM electricity purchased would replace the "deemed delivered" imports.

2. Modify the EIM Outstanding Emissions calculation, which is no longer necessary if the weighted average GHG emission intensity reflects incremental dispatch (including secondary dispatch) of the generating resources in the non-GHG area to support the transfer to California.

3. Change the compliance obligation for EIM Purchasers from their pro-rata share of EIM Outstanding Emissions based on total retail sales, to actual EIM imports purchased.

4. Modify interpretation of CARB's definition of "First deliverer of electricity", which already includes the EIM Purchaser.

- "First deliverer of electricity" or "first deliverer" means the owner or operator of an electricity generating facility in California, an electricity importer, **or an EIM Purchaser**…
- "Energy Imbalance Market Purchaser" or "EIM Purchaser" means, for a given data year an electrical distribution utility that directly or indirectly purchases any electricity through the EIM to serve California load…

5. Modify the definitions of Imported Electricity and Electricity Importer to shift responsibility from the out-of-state EIM Participating Resource Scheduling Coordinator to the in-state EIM Purchaser.

Consideration of Ratepayer Benefits Provided by Utility Allocation

LADWP supports the continued allocation of allowances to electrical distribution utilities. Actions taken by the electric sector over the past 10 years have significantly reduced California's statewide GHG emissions, and the electric sector is working towards the goal of supplying 100% zero-carbon electricity to customers by 2045. CARB should recognize that decarbonizing the electricity supply and upgrading infrastructure to support more renewable energy and electrification comes at a cost. A reliable and affordable electricity supply is essential to serve businesses and communities. Low-income customers who can't afford a solar rooftop or an electric vehicle, are often the most vulnerable to increases in energy costs. The allowance allocation not only protects electricity ratepayers and especially low-income customers from the compliance cost of California's GHG emission cap-and-trade program, it also enables electric utilities to invest in more renewable energy, energy efficiency, energy storage, and other programs that benefit customers and reduce GHG emissions. Any reduction in allocated allowances would result in additional costs being passed through to ratepayers including low-income customers.

Vertically-integrated publicly owned electric utilities (POUs) such as LADWP are in a unique position to provide direct GHG emission reductions by investing in renewable energy and infrastructure to support electrification in other sectors of the economy. The allowance allocation to electrical distribution utilities provides a valuable source of funds that can be used to upgrade infrastructure, invest in renewable energy resources, implement energy efficiency measures, building decarbonization programs, and promote transportation electrification including electric vehicle charging infrastructure and rebates. These investments ultimately benefit ratepayers by reducing long-term energy costs and improving the reliability and quality of the services provided by POUs. In 2021, POUs spent $159 million on these investments, and the use of allocated allowances for cap-and-trade compliance saved POU customers $295 million.[1]

In summary, the firm 10-year allowance allocation to electrical distribution utilities is supporting the transition to a low-carbon electricity supply and supporting electrification to help California achieve its GHG emission reduction goals, while protecting ratepayers and low-income customers from the costs. The existing regulatory structure effectively provides certainty so that utilities can make long-term planning decisions and investments to accelerate changes in their electricity supply portfolio to reduce GHG emissions. POUs rely on having a firm allowance

[1] *Cap-and-Trade Program Summary of 2013-2021 Electrical Distribution Utility Use of Allocated Allowance Value*, California Air Resources Board, https://ww2.arb.ca.gov/sites/default/files/cap-and-trade/allowanceallocation/edu_2013to2021useofvaluereport.pdf

allocation to plan and budget for investments in GHG emission reduction projects. This regulatory certainty needs to continue for the duration of the transition to a 100% zero-carbon electricity supply.

In conclusion, LADWP urges CARB to carefully consider the potential benefits to California of the proposed improvements to GHG emission accounting for the EDAM and EIM electricity markets, and to protect the firm 10-year allowance allocation to electrical distribution utilities due to the long-term planning and investments as well as the ratepayer benefits that are supported by that allocation.

Thank you for your consideration of these 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

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Katherine Rubin
Director of Environmental Affairs

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