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Submitted Electronically

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

Re: Comments on July 27 Cap-and-Trade Workshop

Dear Ms. Sahota:

The Golden State Power Cooperative (GSPC) appreciates the opportunity to engage with California Air Resources Board (CARB) staff on developing potential amendments to the Cap-and-Trade Program regulation. GSPC offers these comments in response to the July 27, 2023 workshop that presented staff's ideas for possible changes to the Cap-and-Trade Program. In addition to the matters addressed herein, GSPC supports *Joint Utilities Group Comments on Potential Amendments to the Cap-and-Trade Regulation*, to which GSPC is a signatory.[1]

About GSPC

GSPC is the statewide association representing California's three Electrical Cooperatives: Anza Electric Cooperative (AEC), Plumas-Sierra Rural Electric Cooperative (PSREC), Surprise Valley Electrical Corporation (SVE). California's electric cooperatives are organized for the purpose of transmitting or distributing electricity exclusively to its consumers "at cost".[2] GSPC utilities serve approximately 400 gigawatt-hours (GWh) of electricity in California, accounting for approximately 0.1% of the state's total electricity sales. The electric cooperatives are member-owned utilities with a direct connection with the communities in which they serve. One of the fundamental reasons electric cooperatives were formed is the inherently higher cost of rural service, which was not as financially attractive to investor-owned utilities. These utilities are located in rural areas of the state, serving unincorporated communities with approximately 1/10 the population density of most municipal utilities. These communities are also especially vulnerable to wildfire threats and are frequently impacted by hazardous wildfire smoke. Many

[1] GSCP also endorses the comments submitted by the Northern California Power Agency and the California Municipal Utilities Association.
[2] Cal. Pub. Util. Code (PUC), section 2776.

of these areas remain economically disadvantaged, located in rural areas with high unemployment, and low-income wage earners. For example, in Surprise Valley Electric's service area, 19.9% of the population is living in poverty.[3]

Electric Distribution Utility (EDU) Allowance Allocation Should be Retained

When the California Air Resources Board (CARB) first approved the Cap-and-Trade Program, CARB's intent was to mitigate the cost of the program on consumers by allocating allowances directly to electric distribution utilities (EDUs), with the requirement to utilize the allowance value for the benefit of electricity ratepayers. GSPC believes that any changes to the regulation, including any necessary adjustments to the allowance budgets, should retain the important role that the EDUs play in ensuring affordable electricity, especially to the state's most vulnerable citizens. The allocation of allowances to EDUs is a fundamental part of the cap-and-trade program, and the proceeds play an important role in funding GHG reduction programs that directly benefit ratepayers- programs that would otherwise result in increased electricity rates. All of the possible scenarios must be carefully modeled, and the impacts of adjustments to any of the various allowance pools must not be assessed in a vacuum. Any amendments to the regulation should also ensure that the Publicly Owned Utilities (POUs) and electric cooperatives retain the ability to direct the use of allowance value and auction proceeds toward programs and measures within their communities, consistent with the direction in the regulation.

The Regulation Should Not Require POUs and Cooperatives to Consign All Allowances

During the workshop, staff asked whether the Cap-and-Trade Program should require publicly owned utilities and Cooperatives to consign allowances, similar to investor-owned utilities (IOUs). GSPC does not believe that any changes should be made to the current rules governing consignment of allowances. CARB has already determined that "even though POUs [and cooperatives] are not required to consign allocations, they are required to use that value for ratepayer benefit and no other purpose. This is equitable with the requirements of the IOUs."[4] CARB has already recognized the fundamental differences between POUs, electric cooperatives, and IOUs that warrant the current consignment structure. Electric Cooperatives are not IOUs, nor are *they POUs.* Electric Cooperatives are owned and governed by the consumers who use its services. Democratically controlled and operated on a not-for-profit basis, an electric cooperative returns any margins to consumers on the basis of patronage. Since there are no investors, the locally elected boards of directors have the cooperative's mission and purpose in mind: to provide safe, affordable, and reliable electric service in rural California.

[3] https://www.census.gov/quickfacts/fact/table/modoccountycalifornia,US/PST045221
[4] October 2011, Cap-and-Trade Program, Final Statement of Reasons (FSOR), p. 687.

While the electric cooperatives are organized for the purpose of transmitting or distributing electricity exclusively to its consumers “at cost,”[5] electrical corporations, and specifically IOUs, are defined with the specific purpose of selling power “for compensation.”[6] In essence, we cut out the middle-man investor and focus on the needs of our communities. Our not-for-profit structure makes certain our decisions are made with long-term sustainability and stability in mind, and not the need to turn a quarterly profit. Local accountability ensures our consumers’ interests are at the forefront of the decisions made on how to best spend allowance value. We are invested in the communities we serve and provide power for people, not for profit.

The fundamental reason IOUs are forced to consign their allowances is to ensure that the value is delivered to their customers and not sent to investors. The cooperative business model is based on equity and all member-consumers are considered owners of the utility. This unique business structure sets them apart from IOUs and therefore, electric cooperatives should have the flexibility to decide whether or not consignment returns the best value to their member-consumers. Requiring electric cooperatives to consign all their allowances, would increase the cost to our electric cooperatives that have compliance obligations and would potentially cause uncertainty in the cap-and-trade market that increases the financial risk for our not-for-profit utilities. Increasing the cost to our not-for-profit electric cooperatives translates directly to increased cost for our member-consumers.

Unique EDU Characteristics May Warrant Different Treatment

The electric cooperatives are primarily located in rural areas. The significantly more costly task of constructing, operating, and maintaining rural infrastructure, as well as restoring power outages across vast, rugged service areas is not a recipe for high profits. In fact, the Rural Electrification Administration (REA) was created as part of the New Deal in 1935, and electric cooperatives were designed to serve these rural consumers that were *denied* service by IOUs. The REA has since become the Rural Utilities Service, but the goal to facilitate providing electricity to difficult-to-serve populations remains the same.

GSPC members maintain over 5,000 miles of power line and serve an average of less than 5 customers per mile of powerline; compared to approximately 35 customers per mile of powerline for IOUs and 47 customers per mile for POUs. Less density means less revenue per mile of infrastructure to maintain. Due to the higher cost of service and the small number of customers served, policy mandates can disproportionately impact our ratepayers. Since cooperatives sell power “at cost,” all costs are borne by the consumer.

Utility size matters when it comes to the use of allowance value. The electric cooperatives are all very small utilities- each serving less than 8,000 homes and small businesses.

[5] Cal. Pub. Util. Code (PUC), section 2776.
[6] Cal. Pub. Util. Code (PUC), section 218.

They do not have economies of scale that enable them to build large-scale renewable energy projects or have dedicated staff for participating in regulatory proceedings, let alone the Cap-and-Trade Program. Additionally, unspent allowance value often needs to be "banked up" to ensure they have sufficient funds to make meaningful investments on behalf of their ratepayers.

Local Control Maximizes Ratepayer Benefits of EDU Allowance Allocation

In 2011, CARB stated that "[t]he regulation requires that auction revenues be used for the ratepayer benefit. If a technology can be shown to be cost effective at reducing GHG emissions, then it may be feasible for utilities to use it. It may have a relative value for some ratepayers, but may be more costly for others as an emerging technology. As a result, it will be important that utilities work with the CPUC *and local governing boards to determine what is best for their ratepayers*."[7] This ability to tailor programs specifically for the needs of a community helps to ensure that the value provides the greatest total benefits within the cooperatives' service territory and to its electricity ratepayers.

For electric cooperatives, the most cost-effective, meaningful, and straight-forward way to maximize the ratepayer benefit of allowance value and auction proceeds is to allow the cooperatives to continue to utilize the funds for the direct benefit of their member owners. Ensuring that the EDUs have allowances to offset compliance costs associated with the Cap-and-Trade Program allows the utilities – and in particular small utilities –to focus on implementing GHG reduction strategies and investments within their service territory. Local investment of allowance value has the added benefit of being tailored to the specific needs of the community, including to offset rate increases and GHG reduction program costs that would otherwise jeopardize affordable electricity rates.

It is also important to recognize that some EDUs have made long-term plans and investment strategies about the use of their allowance value based on the current regulations. The approved parameters for the use of allowance value and auction proceeds need to remain consistent so that current and planned investments are not undermined by changes. GSPC also urges CARB to expedite the development of the California Climate Investments Quantification Methodology for wildfire, so that the value of allowances can be used for wildfire mitigation measures, consistent with the parameters set forth in the regulation. Many GSPC communities are vulnerable to wildfires starting on federal lands and suffer from the impacts of wildfires as they disrupt local economies, destroy communities, and significantly impact both physical and mental health, especially for the most disadvantaged communities unable to evacuate or purchase home air purifiers. Recent studies show wildfire smoke accounts for half of small particulate matter in parts of the Western United States.[8] The ability to use auction proceeds on wildfire

[7] October 2011 FSOR, p. 1145 (emphasis added).
[8] http://web.stanford.edu/~mburke/papers/burke_et_al_wildfire_pnas_2021.pdf

mitigation activities will provide an impactful and direct benefit to rural ratepayers, both in terms of health and welfare, and actual GHG reductions.

Conclusion

GSPC urges CARB not to change the current consignment rules for electric cooperative and POU allocated allowances, and to ensure that the EDUs retain the ability to direct the use of allowance value and auction proceeds to eligible programs and measures within their communities. Furthermore, modeling the various scenarios associated with adjustments to allowance budgets should take into account the direct and real benefit that EDU allowances have on electricity customers, especially in light of the upward pressure that is placed on electricity rates by aggressive climate policies.

Respectfully submitted,

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