



August 17, 2023

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

**RE: Sacramento Municipal Utility District's Comments on Potential Amendments to Cap-and-Trade Program**

Dear Ms. Sahota:

The Sacramento Municipal Utility District (SMUD) appreciates the opportunity to comment on the California Air Resources Board's (CARB) July 27, 2023 workshop on potential changes to the Cap-and-Trade program. SMUD supports the strategies identified in CARB's 2022 Scoping Plan Update (SPU) to reduce economywide emissions by enabling widespread electrification and increasing renewable and clean energy generation. Following the adoption of a climate emergency declaration by SMUD's Board of Directors, SMUD developed our 2030 Zero Carbon Plan. Our Plan established an ambitious goal for SMUD to reach zero carbon emissions in our power supply by 2030 while maintaining reliability and affordable rates and providing opportunities for economic mobility for underserved communities.

SMUD appreciates CARB's efforts to align the Cap-and-Trade program with the policies and new emissions reductions called for in the 2022 Scoping Plan Update. A well-designed Cap-and-Trade program can serve as a backstop to ensure state's emissions reductions goals are achieved in a technically feasible and cost-effective manner. Importantly, the program includes several mechanisms to protect against excessive costs, including allowances allocated to utilities for the benefit of their ratepayers. Allowance allocation is especially important given the crucial role the electricity sector will play in enabling economywide decarbonization. Therefore, SMUD urges CARB to carefully consider the impacts from any potential program changes to allowance allocations or their disposition.

SMUD offers the following comments on the July 27 workshop:

- Publicly owned electric utility (POU) allowance allocations provide important ratepayer benefits and are critical to advancing the state's GHG reduction goals.
- Requiring POUs to consign all allowances would increase costs without any clear financial, transparency, or GHG reduction benefits.
- Preserving POUs' flexibility to determine how best to use allowance value is the most efficient, effective, and suitable way to respond to local communities' needs and reduce GHG emissions in our service territories.

SMUD also supports the comments of the California Municipal Utilities Association and the Joint Utilities Group, both filed on August 17, 2023. SMUD's detailed comments follow.

### **POU Allowance Allocations**

Direct allowance allocations provide important protections for POU customers, and the current flexibility in the Cap-and-Trade program allows POUs to maximize the benefits on their customers' behalf.

Direct benefits of allowance allocations to POU customers take two primary forms:

- Allowances that are deposited for compliance mitigate the financial burden associated with the Cap-and-Trade program and serve as a downward pressure on rates.
- Proceeds from consigned allowances provide opportunities for POUs to fund clean energy programs and investments that are tailored to the needs of their individual communities.

The importance of both types of benefits are reflected in the 2022 SPU. For example, the SPU recognizes the need to keep rates low, noting that "clean, affordable, and reliable electricity will serve as a backbone to support deep decarbonization across California's economy" and highlighting the need to mitigate impacts to electricity affordability.<sup>1</sup> This is important because higher electricity rates could hinder progress toward California's aggressive building and transportation electrification goals. The SPU also recognizes the importance of continued buildout of renewable resources to rapidly grow the grid alongside investments in building decarbonization and transportation electrification programs.

SMUD's electricity rates are among the lowest in California, and on average are more than 49% below those of the neighboring investor-owned utility (IOU). SMUD's ability to keep rates affordable while also aggressively pursuing clean energy and electrification goals is due, in part, to the continued availability of directly allocated allowances and our ability to determine the optimal use of those allowances as needs change over time – whether to mitigate the cost of compliance or to invest in renewable energy or in customer programs. Given the important ratepayer protections provided by POU allowance allocations, we urge CARB to carefully consider the impacts of potential changes to allowance allocations and their disposition, and we appreciate CARB staff's comments at the July 27 workshop that Cap-and-Trade program changes must be viewed holistically.

### **Consignment of Allowances**

SMUD strongly encourages CARB staff to preserve POUs' current ability to deposit some or all allowances for compliance. Depositing allowances for compliance provides a direct benefit to ratepayers, as noted above, by shielding them from some of the costs of complying with the Cap-and-Trade program. Requiring all POUs to consign allowances would increase the costs that must be borne by POU customers without providing any clear financial or GHG emissions reduction benefits.

---

<sup>1</sup> [2022 Scoping Plan Update \(ca.gov\)](#) at pp. 195 and 205.

SMUD is concerned that mandatory consignment would increase transaction costs. For example, if POUs are required to purchase all allowances for compliance, they would need to have significant capital available. This proposed change imposes collateral needs that is well above current requirements to participate in auctions. Having to post additional collateral could “tie up” those funds, depriving POUs—especially larger POUs with more significant compliance obligations—of material investment and revenue opportunities.

SMUD is particularly concerned that mandatory consignment would increase costs and create significant financial risks for POUs without any meaningful benefits. Monetizing allowances through consignment does not inherently affect carbon pricing, improve transparency, or incentivize additional GHG reductions. SMUD, along with other POUs, includes the cost of carbon in resource bids and dispatch. The Cap-and-Trade regulation also prohibits the use of directly allocated allowances to meet compliance obligations for electricity sold into the California Independent System Operator (ISO) markets. Forced consignment and subsequent repurchasing of allowances does not change carbon price signals for POUs.

Mandatory consignment would also not increase transparency. SMUD, along with other POUs, already provides transparent annual reports that describe our use of allowance values. These existing, detailed reports account for the value of both consigned allowances and allowances deposited for compliance, and information from these reports is passed on to the public through CARB’s Use of Allocated Allowance Value reports; requiring mandatory consignment would not affect the transparency of POUs’ use of allowance values. To the extent that CARB is interested in simplifying the current process to confirm that POU allowances are not used for compliance obligations associated with ISO market sales, SMUD believes this can be achieved without requiring mandatory consignment. For example, CARB could consider an attestation or process certification in lieu of the current sales reporting process. SMUD would be happy to further explore these concepts with CARB staff.

Finally, SMUD notes that requiring POUs to consign allowances would not directly incentivize additional GHG reductions. Such an effect would also require CARB to modify the requirements for use of allowance proceeds to mandate spending on GHG reduction projects. While that may, in some cases, result in additional GHG reduction projects, it may also limit or dilute the value of the ratepayer protection associated with that allowance.

### **Use of Allowance Value**

SMUD urges CARB to retain the current flexibility in the Cap-and-Trade regulation that allows POUs to determine what use of allowance value is the most effective and suitable for their communities’ needs. POUs like SMUD, which are governed by locally-elected officials accountable to our community, should continue to have the discretion to craft and fund the programs that best suit the needs of their unique populations and demographics within the general parameters set forth in the regulation. This allows for decisions about climate investments to be made more efficiently within the communities directly impacted by these programs. In addition, as previously noted, POUs should retain the ability to deposit allowances for compliance instead of being forced to consign them.

Depositing allowances for compliance helps counteract the cost of compliance and keep rates low, providing direct ratepayer benefits and furthering the state's climate policy, which hinges on affordable rates to enable electrification.

The current requirements regarding use of allowance value function well and have allowed SMUD to maximize benefits for our local ratepayers. SMUD's use of allowance allocation has varied over time, depending on our community's specific needs and where the value could have the greatest impact for our customers. Examples include, but are not limited to, funding heat pump water heater rebates to promote fuel switching; funding energy efficiency programs for low-income customers and small commercial customers; investing in clean transportation infrastructure projects; investing in renewable generation projects and procurement; and compliance. SMUD's current plans for our allowance value include a mix of investing in renewable generation projects that will displace fossil fuel generation, which we believe will have the greatest impact in terms of advancing our 2030 Zero Carbon Plan, and depositing allowances for compliance, which will help contain rate pressures as we increase enabling investments in other areas, including electrification programs. SMUD cautions that more prescriptive spending requirements may actually limit POU's ability to maximize the benefits to their customers from allowance allocations.

Finally, SMUD disagrees with the concept that CARB should restrict use of allowance value for POU's for the sake of parity with IOU's and natural gas utilities. As not-for-profit local governments that are accountable to the communities they serve, POU's have different motivations, governance, and financial structures and are well positioned to use allowance allocations and values in manners that best serve their customers.

### **Voluntary Renewable Electricity Program**

SMUD believes it is reasonable for CARB to replenish the Voluntary Renewable Electricity (VRE) reserve to continue allowing entities to recognize voluntary renewable electricity purchases within the Cap-and-Trade program. Currently, several voluntary renewable energy certification programs, including the Center for Resource Solutions' Green-e program, require allowances to be retired in the VRE program as part of the certification processes. If the VRE program is depleted, Green-e may require participants to purchase allowances, which could add significant costs to these beneficial, climate-friendly programs and discourage participation in voluntary renewable certification programs throughout the state. However, if CARB does replenish the VRE reserve, it should not be populated from utility allowance allocations, which, as noted above, provide essential ratepayer protections to mitigate the costs of Cap-and-Trade compliance.

**Conclusion**

Thank you for the opportunity to provide feedback on potential changes to the Cap-and-Trade program. SMUD looks forward to working with CARB and stakeholders to develop proposed regulatory changes that align the Cap-and-Trade program with the state's climate goals while continuing to include affordability protections for POU electricity customers.

/s/

---

KATHARINE LARSON  
Regulatory Program Manager  
Government Affairs  
Sacramento Municipal Utility District  
P.O. Box 15830, MS B404  
Sacramento, CA 95852-0830

/s/

---

JOSHUA STOOPS  
Government Affairs Representative  
Government Affairs  
Sacramento Municipal Utility District  
P.O. Box 15830, MS B404  
Sacramento, CA 95852-0830

/s/

---

MARISSA O'CONNOR  
Senior Attorney  
Sacramento Municipal Utility District  
P.O. Box 15830, MS B406  
Sacramento, CA 95852-0830