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Re: Turlock Irrigation District Comments on CARB's July 27, 2023 California Public Workshop: Potential Amendments to the Cap-and-Trade Regulation

Introduction

Turlock Irrigation District (TID) appreciates the opportunity to submit comments in response to the California Air Resources Board's (CARB) July, 27 2023 workshop on potential amendments to the Cap-and-Trade Regulation. TID was organized as the first Irrigation District in California on June 6, 1887, and is currently in its 136th year of operation. TID is also a publicly owned utility (POU) and one of eight Balancing Authorities (BA) in California. TID's customer base consists of 14 communities. Eleven are classified as Disadvantaged Communities according to the Department of Water Resources (DWR), and the majority of TID's service territory is in the top 20% of Cal Enviroscreen 3.0 impacted communities. The TID ethos is to provide stable, reliable, and affordable water and power to our customer/owners, be good stewards of our resources, and provide a high level of customer satisfaction through clear, concise communication. As a BA, TID is also tasked with balancing retail demand generation, and wholesale purchases and sales, while providing adequate reserve capacity to maintain grid reliability. TID's usage of allowances through the Cap-and-Trade Program is critical to maintain affordability for customers and meet the Greenhouse Gas (GHG) emission reduction needs of our service territory.

TID believes that a well-designed Cap-and-Trade Program is contingent upon stakeholder input. CARB's integration of feedback into updates of the Cap-and-Trade Program provides regulatory certainty and promotes investment in GHG reductions. TID also believes the Cap-and-Trade program is working well as a result of CARB's historic collaboration with stakeholders like TID through open, public processes. TID is committed to California's near-term GHG emission reduction targets that would see GHG emissions reduced 40% below 1990 levels by 2030. TID is also committed to California's long-term strategy for carbon neutrality by 2045 set forth in the 2022 Scoping Plan Update. TID must retain the ability to decide the most efficient uses of Cap-and-Trade allowance value on our customer/owner's behalf. These comments focus on demonstrating how the limitations that would be imposed on TID through the proposed consignment of our allocated allowances would be detrimental to the District's pre-existing commitments and its ratepayers. We explain how the existing reporting framework already provides transparency into the POUs' use of allowance values. The potential changes to POU allowance allocation under the Cap-and-Trade Program will raise a number of issues that would not ultimately benefit ratepayers or CARB's overarching GHG emission reduction targets.[1] TID's hope is that these comments illustrate to CARB the correlation between a POU's ability to decide Cap-and-Trade revenue use and California's long-term carbon reduction goals. Last, TID reiterates the importance of the Renewables Portfolio Standard (RPS) Adjustment that acknowledged GHG reductions due to early action by forward thinking utilities like TID who invested in renewable resources before there was any requirement to do so. TID appreciates the opportunity to comment on this workshop.

Forced Consignment Issues

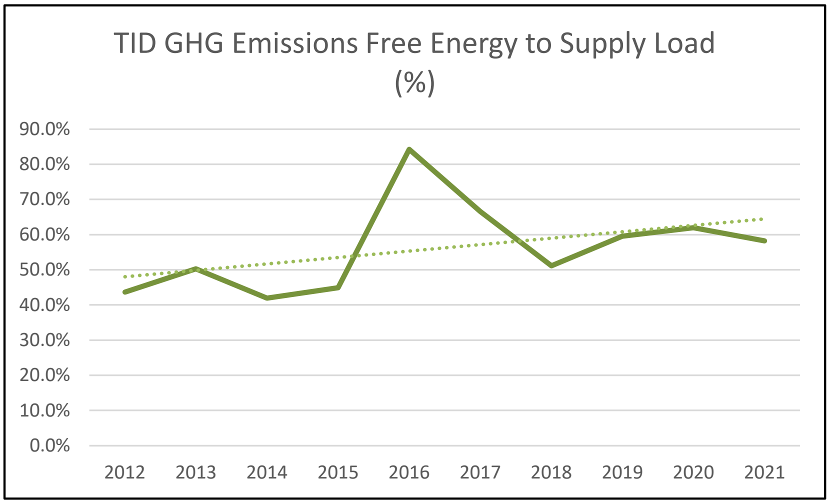
I. TID Already Includes Carbon Cost In Its Decision Making Without Forced Consignment And There Is Transparency In POU Allowance Revenue Reporting

California Municipal Utilities Association's comments from March 16, 2018 during the last Cap-and-Trade rulemaking concisely discuss the role of carbon pricing in decisions utilities make about how they dispatch their resources

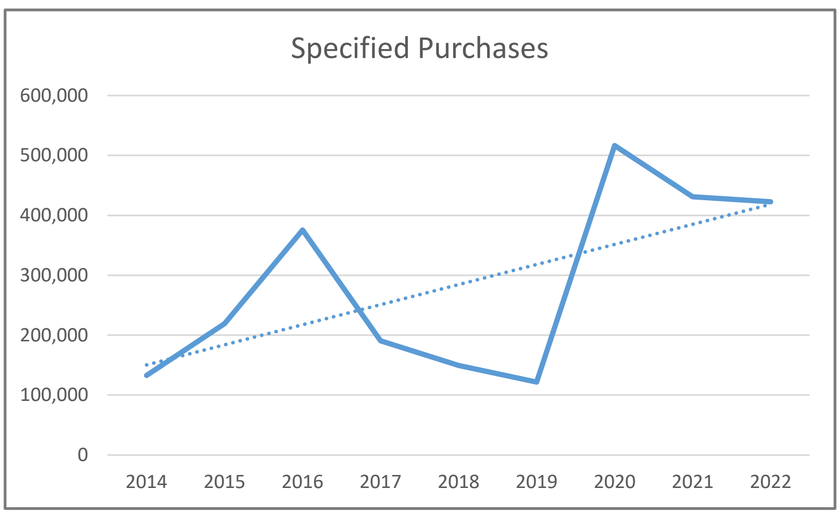
> "A fundamental pillar of California's Climate Change initiative is that behavior is impacted by price. This behavior certainly can occur at the consumer level, but it can also occur at a higher level in the procurement and/or distribution chain. Having a price on carbon, even it is not a direct charge to consumers, can impact (and indeed *has* impacted) the dispatch of California's POUs' power resources.
>
> California Balancing Authorities all include a "GHG adder" in their economic resource dispatch calculations: indeed, every generating unit under POU control has such an adder."[2]

The graph below depicts TID's decision making process for GHG emissions free economic resource dispatch, following the implementation of the Cap-and-Trade program. Due to the carbon costs included in the pricing of the fossil fuel plants we dispatch, our thermal resources dispatch has trended downward, resulting in greater GHG-free emissions.

[1] California Public Workshop: Potential Amendments to the Cap-and-Trade Regulation, Slide 38.
[2] Available at https://www.arb.ca.gov/lists/com-attach/13-ct-3-2-18-wkshp-ws-AnJROFQgAg4Lawhn.pdf.



At the same time that we are dispatching cleaner resources, TID is also paying a premium for cleaner imported energy from the Pacific Northwest. The trend line in the following graph depicts the continual increase in Asset Controlling Supplier Specified Purchases to serve TID's load.



Neither of these trends would have occurred without TID having to embed GHG costs into our resource dispatch of owned fossil fuel generation that has been largely driven by the Cap-and-Trade program. Requiring allowance consignment would have no effect on the carbon price signal that we incorporate today or will incorporate in the future. Instead, a change in these rules, would simply take away a financial resource TID has budgeted to help offset the costs of other investing in additional GHG reductions.

TID disagrees with the assertion that there is a lack of transparency in the use of allowance value. Annually, all emissions from our owned power plants are reported and the disposition from all energy purchases are likewise reported. This is accomplished through the use of CARB's Allowance Funds Report where all allocated allowances and all revenue from the sale of allowances is reported. These forms have been updated since the start of the program to provide additional reporting obligations and we believe this is an important tool to ensure that POUs meet CARB's high standards for transparency.

II. Low Electricity Rates Benefit Disadvantaged Communities Disproportionately

Current internal policy directs TID staff to look ahead at the future market for allowances. As the carbon market tightens under the Cap-and-Trade Program, it is reasonable to expect materially higher prices for allowances. For a POU such as TID that serves a large population qualifying as either low income or disadvantaged, it is imperative for ratepayer cost protection that TID be able to have self-governance over allowance usage. One way TID ratepayer protection is ensured is through the POU having the ability to analyze and then make a decision regarding the risk associated with selling allowances as opposed to banking them for future use. Should POUs be forced to consign all of their allocated allowances to auction, significant increases to electricity rates could result as a consequence. These across-the-board rate increases disproportionately affect our disadvantaged customers.

When a POU such as TID makes the strategic decision to consign allowances to auction, that decision is made as part of an overarching long-term financial strategy to reduce its carbon footprint while minimizing cost. TID's long-term GHG emissions reduction goals hinge upon being able to utilize allowances in a variety of ways which reflect the diverse needs of our community. The needs of our disadvantaged communities are met by TID through the various pathways permitted for allowance usage. Therefore, cost containment and allowance allocation for compliance entities becomes more important than ever in mitigating the impact of higher prices on consumers of electricity.

III. Forced Consignment Ignores the Direct Connection And Understanding TID Has For The Customer/Owners It Serves

As a public agency and community-owned utility, TID has a direct relationship with the people and businesses we serve. TID is governed under the authority of locally-elected board members who directly answer to all the communities TID serves. One of the primary reasons TID is opposed to changes in POU consignment rules is due to the structure of TID as a POU. TID's understanding of the best means of utilizing compliance allowance value is to minimize costs of zero-carbon investments. Acting upon this understanding, over time, TID staff has made investments to procure renewable energy, implement effective locally-based energy efficiency programs, and incentivize building and transportation electrification.

POUs and Investor-Owned Utilities (IOUs) both provide electricity, except POUs cannot make a profit. Instead, POUs must reinvest any revenue exceeding costs back into our services. Moreover, unlike IOUs, POUs also do not compete with independent generators, which was one of the reasons, POUs were originally provided more flexibility in consignment rules. . CARB has historically recognized the differences between POUs and IOUs. TID would implore CARB to continue to recognize that diversity in governance structure is key towards California meeting its statewide climate objectives.

TID is a vertically-integrated utility that owns and operates a variety of assets which comprise our resource mix. Since 2005, TID has been an independent BA. As a BA, TID is responsible to perform a balancing function in which customers' energy usage is matched with our generation capacity on a moment-to-moment basis. This responsibility adds to the cost of supplying our customer's electricity. As the pool of allowances within the Cap-and-Trade Program diminishes, TID would stress to CARB the importance of TID's independence in selling or retiring our allowances to advance GHG emission reduction projects in TID's service territory.

In addition, all of TID's resources that carry a GHG compliance obligation are bid into the Energy Imbalance Market ("EIM") on a daily basis, and EIM requirements dictate that GHG related costs must be included. This eliminates the possibility that freely allocated allowances are serving to effectively lower the heat rate of our thermal units to make them more attractive to the market, to the disadvantage of other market participants, preserving the GHG price signal that is so important for reducing emissions.

POUs such as TID do not enjoy the financial "backstop" IOUs are able to rely on from shareholders to shore up financial strain. Forced consignment of POU allowances to auction would jeopardize California's GHG reduction goals and harm the most vulnerable communities which are often disproportionately impacted by GHG emissions. Decarbonization strategies will look different across California's diverse population. Community-owned utilities understand the best decarbonization pathways for the communities in their service territory. A "one-size-fits-all" approach to allowance consignment would jeopardize POUs' ability to keep costs down in fulfilling their roles in meeting California's near-term and long-term climate goals. For TID's ratepayers, that means that individuals in disadvantaged and low income communities would bear additional costs associated with the program.

Allowance Allocation

IV. CARB Should Not Change Allowance Allocation Levels Already Established In The Regulation.

During the July 27 CARB Cap-and-Trade workshop, CARB discussed cuts to the Cap-and-Trade allowance budgets of between 115 to 390 million tons depending on which of either the 40%, 48%, or the 55% reduction scenarios is chosen. CARB also mentioned that in order to meet the emissions reductions contemplated by the 2022 Scoping Plan, carbon capture and sequestration technology needs to be commercially viable on a large scale. Also, the issue of green hydrogen production capacity in California needing to expand by over 400 times was brought up. TID is concerned with reliance on emerging technologies if either carbon capture or cost-effective green hydrogen production are not widely available by 2030, there will be significant price pressure placed on allowances.

Adjusting allowance budgets amid this uncertainty is premature. CARB should wait for better data on these fronts. CARB staff appreciates the use of the most current data and being that these areas are still in such a state of uncertainty, TID recommends a surgical revisit to the regulation in the 2026-2028 timeframe in order to assess an updated market price and the state of development of these nascent industries.

RPS Adjustment

I. TID Would Encourage CARB To Recognize The Significance Of The RPS Adjustment Concerning Potential Cap-and-Trade Program Changes

The historical intent of the RPS Adjustment was twofold. First, it was an acknowledgement of the utilities that were early actors in the procurement of renewable energy. Specifically, those utilities that developed renewable generation prior to the implementation of the Mandatory Reporting Regulation (MRR) and Cap-and-Trade regulation, especially out-of-state resources. Second, to help CARB accurately track the actual electricity consumed in California for cases in which the energy and renewable energy credits (RECs) were procured by a utility for compliance with the RPS program and the associated electricity was not directly delivered in-state. The intent of a utility’s investment in the RPS program is to advance renewable energy development. The direction of the Cap-and-Trade Program is to reduce GHG emissions in California. The RPS Adjustment is a bridge between these two programs that ensures that utilities keep costs down for investments in carbon free energy.

In 2010, CARB administered its Cap-and-Trade and MRR program to ensure emissions accounting was based on the direct delivery of electricity in-state and to exclude electricity purchased by in-state utilities that did not make its way into California. Furthermore, this recognized the <u>cost</u> to comply with the RPS program. The RPS Adjustment was a negotiated piece of the MRR that acknowledged utility early action and removes the Cap-and-Trade obligation equaling the imported amount of renewable generation that was produced out-of-state. As CARB seeks to update the Cap-and-Trade Program, CARB should ensure that any changes do not compromise the integrity of the RPS Adjustment. Utilities like TID would see a greater cost associated with compliance should CARB fail to carry forward the RPS Adjustment and this would increase costs for our ratepayers and potentially disrupt future plans for RPS compliance.

Conclusion

TID Opposes Potential Cap-and-Trade Program Policies That Would Strip POUs' Use Of Allowance Allocation Control, Significantly Lowers Allowance Supply, Or Compromises The RPS Adjustment

TID forecasts increased costs to electrify the numerous processes in its territory, i.e. transportation, buildings, and industrial customers. TID would encourage continued joint agency collaboration between CARB and its sister agencies on funding opportunities tied to the electrification needs of the transportation, building, and industrial sectors. TID opposes CARB's proposal for POUs to consign all allowances to auction. Under an allowance allocation consignment obligation for POUs, TID would be forced to raise electricity rates. Forced consignment would also increase the difficulty for POUs to meet California's aggressive long-term GHG emission reduction targets. For Allowance Allocation, TID recommends a surgical revisit to the regulation in the 2026-2028 timeframe in order to utilize updated market data. Even though the RPS Adjustment was not discussed during the most recent workshop, TID warns against the greater cost associated with compliance should CARB fail to carry forward the RPS Adjustment. California's ability to achieve carbon neutrality by 2045 rests on many principles/mandates working in tandem. Finally, TID would encourage CARB to closely examine the letters they receive from POUs and their association agencies as they consider Cap-and-Trade Program updates. A successful Cap-and-Trade Program for all hinges upon POU input. Close collaboration between the POUs and CARB on any changes to the Cap-and-Trade Program will ensure California meets its climate goals while meeting the needs of the communities that will benefit the most from carbon neutrality.

TID appreciates the opportunity to comment and will be working diligently with CARB to achieve California's clean energy future.

Respectfully,

Ken Nold
Austin Avery