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

RE: SCPPA Comments on Potential Amendments to the Cap-and-Trade Regulation, July 27, 2023, Workshop

The Southern California Public Power Authority¹ (“SCPPA”) appreciates the opportunity to provide feedback on the Cap-and-Trade Public Workshop hosted by the California Air Resources Board (CARB) staff on July 27, 2023.

California’s electricity sector has been the primary driver of GHG emissions reductions in the state, reducing emissions by 44% since 1990.² While the electricity sector currently accounts for 16% of California’s GHG emissions,³ SCPPA Members continue to make substantial investments in clean energy, with the ultimate goal of achieving the state’s landmark policy of 100% clean energy by 2045. Moreover, several SCPPA Members are planning to reach 100% clean energy well before the state’s 2045 goal. Our ambitious clean energy efforts will also help reduce GHG emissions in other sectors (e.g., transportation and buildings) that have proven to be more challenging to decarbonize.

Unlike many other entities regulated under the Cap-and-Trade program, SCPPA Members are not-for-profit publicly owned utilities (POUs) that serve their local community and are governed by a board of commissioners and/or locally elected public officials. Through a public process, these local governing boards make planning decisions and set electricity rates based on the benefits to the community and the actual cost of providing reliable electricity service to customers. Several SCPPA Members also have advisory committees comprised of community members that make reports and recommendations to help inform the electric utility’s governing board. For example, the Los Angeles Department of Water and Power (LADWP), under guidance from committees made up of environmental justice organizations and local elected officials, conducts extensive

¹ SCPPA is a joint powers authority whose members include the cities of Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, Los Angeles, Pasadena, Riverside, and Vernon, and the Imperial Irrigation District. Each Member owns and operates a publicly owned electric utility (POU) governed by a board of local officials. Our Members collectively serve nearly five million people throughout Southern California. Together they deliver electricity to over two million customers throughout Southern California, spanning an area of 7,000 square miles.

² 2021 California Clean Energy Almanac. https://www.energy.ca.gov/sites/default/files/2022-02/2021_EnergyAlmanac_ADA.pdf

³ Current California GHG Emission Inventory Data. <https://ww2.arb.ca.gov/ghg-inventory-data>

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community engagement and Listening Sessions to identify energy equity priorities.⁴ LADWP also established an Equity Metrics Data Initiative to track, measure, and report on the distribution of program benefits to their ratepayers.⁵

As CARB looks to make changes to the Cap-and-Trade program to further reduce GHG emissions – especially for those sectors that have been harder to decarbonize – it is critical to avoid policies that add additional costs to SCPPA customers without commensurate climate benefits. It is also important to recognize the local efforts by POUs to serve their low-income customers and disadvantaged communities and avoid conflicts with their equity strategies.

To this end, SCPPA has serious concerns regarding some of the potential Cap-and-Trade program changes that were discussed at CARB’s July 27th workshop. Specifically, requiring POUs to consign *all* allowances and further reducing POU allowance allocation would be detrimental changes to the Cap-and-Trade program that will increase financial burdens on SCPPA Members, result in cost impacts to ratepayers, and ultimately hinder local energy equity efforts, as detailed in the comments below.

I. **Background of SCPPA Members’ goals to provide clean and affordable energy to all residents, both pre- and post-2030.**

(A) SCPPA Members are committed to clean energy through local efforts and SB 100 related policies.

For SCPPA Members, it is critical that the state’s Cap-and-Trade program complements efforts to achieve state and local clean energy goals. Any changes to the Cap-and-Trade program must avoid increased costs to POU customers, especially when those costs do not provide commensurate climate benefits.

Senate Bill (SB) 350, SB 100, and SB 1020 establish the 2030, 2035, 2040, and 2045 clean energy goals that are driving current state policies for the electricity sector. Through the Renewables Portfolio Standard (RPS), there is a regulatory enforcement program set to exceed 2030 goals. SB 100 and SB 1020 set state policy goals for beyond 2030, but deferred any regulatory enforcement program as the electricity sector and state agencies assess how to accomplish these goals in a cost effective, equitable, and reliable manner. The Cap-and-Trade program incentivizes early action on emissions reductions to obtain funds needed to achieve and exceed SB 350 and SB 100 clean energy goals.

⁴ LA100 Equity Strategies. https://www.ladwp.com/ladwp/faces/ladwp/aboutus/a-power/a-p-cleanenergyfuture/a-p-la100equitystrategies?_adf.ctrl-state=1b1m6bgb9h_41&_afLoop=388046738762918

⁵ LADWP Equity Metric Data Initiative. https://www.ladwp.com/ladwp/faces/ladwp/aboutus/a-financesandreports/au-fr-corporateperformance/au-fr-corporateperformance-emi?_adf.ctrl-state=1b1m6bgb9h_4&_afLoop=387976975830041

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For the electricity sector, the Cap-and-Trade program is one of a suite of complementary regulations that, when combined, result in GHG emissions reductions. For example, the RPS is a primary state regulation to ensure the electricity sector reaches the state's 2030 clean energy goal by mandating the percentage of renewable electricity a utility must have to serve customers electricity. Likewise, we expect that SB 100, SB 1020, and future legislation will develop the primary policy for the electricity sector to ultimately reach the State's clean energy goals beyond 2030.

At the local level, many SCPPA Members are engaged in planning efforts to surpass California's goals. LADWP has a target to achieve 100% clean energy by 2035, established by the Los Angeles City Council and supported by the LA100 Renewable Energy Study and Equity Strategy⁶. Burbank Water & Power and Riverside Public Utilities are both pursuing 2040 zero-carbon goals with community-wide carbon neutrality and accelerated renewable energy targets adopted by their City Councils. Glendale Water & Power commissioned a study to assess the feasibility of achieving 100% clean energy by 2030. No other sector covered by the Cap-and-Trade program has other such stringent requirements placed upon it, yet many POUs have voluntarily decided to exceed these goals. The Cap-and-Trade program should work in conjunction with these efforts and not penalize POUs making measurable progress towards the state's goals by resetting baselines or changing effective parts of the program.

While POUs are planning for a clean energy future, it should be noted that achieving 100% clean energy requires a multifaceted approach, some of which will involve issues beyond the control of POUs. For example, the CAISO is updating and streamlining processes necessary to integrate the constantly increasing number of renewable resources and the expansion of the existing transmission system. Addressing transmission constraints is necessary for POUs to comply with all climate goals, while providing reliable and affordable service. Consideration should be taken for these situations that fall outside of POU control. The CAISO is actively engaging with market participants, including SCPPA Members, to update market rules to meet the next level of GHG emissions reductions.

With or without Cap-and-Trade, SCPPA Members are engaged in the planning and investments needed to achieve both state and local clean energy goals. As such, adding the burden of the costs associated with Cap-and-Trade program compliance would hamper SCPPA Member's efforts to achieve clean energy goals as well as assist the state with reaching its Scoping Plan goals. To achieve high emissions reductions, SCPPA Members will need to overcome complex and costly challenges, while maintaining grid reliability and ratepayer affordability.

(B) Providing affordable electricity is critical to electrifying the grid equitably and effectively.

⁶ Cochran, Jaquelin, and Paul Denholm, eds. 2021. The Los Angeles 100% Renewable Energy Study. Golden, CO: National Renewable Energy Laboratory. NREL/TP-6A20-79444. <https://maps.nrel.gov/la100/>.

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According to the World Economic Forum, energy equity has plateaued over the last three years due to extreme price shocks that exacerbate poverty and inhibit access to reliable, affordable energy⁷ SCPPA Members have seen ballooning costs and operational challenges due to supply chain impacts of critical components for the electricity grid. Products such as transformers, batteries, smart meters, wires, cables, vehicles, and utility poles have been impacted with significant cost increases, which ultimately must be passed through to customers. In all aspects of their lives, Californians have felt the impact of unprecedented rates of inflation and supply chain disruption over the last three years. In addition, utility customers are still recovering from COVID impacts and POU's are still working with customers who fell behind on utility bills. These impacts would be further exacerbated by reducing allowance allocations to electrical distribution utilities and requiring consignment of all allocated allowances such that POU's could no longer use their allocated allowances to protect their ratepayers from the cost of compliance with the Cap-and-Trade program.

Over the last decade, California electric utility customers have seen increases in rates that far exceed the national average. The average retail price of residential electricity in the U.S. increased from 11.88 ¢/kWh in 2012 to 15.12 ¢/kWh in 2022, representing a 27% increase. By comparison, California's average residential electricity rate went from 15.34 ¢/kWh to 26.17 ¢/kWh, more than a 70% increase, the bulk of this increase is due to the costs of transmission buildout for renewable generation buildout associated with RPS and Cap-and-Trade programs. While POU rates are, on average, lower than investor-owned utility (IOU) rates, it remains critical to maintain affordable electricity rates. The state's decarbonization path, as outlined in the 2022 Scoping Plan Update, relies on aggressive electrification of vehicles and buildings. Maintaining affordable electricity rates incentivizes customers to purchase and use electric vehicles and appliances due to cost savings when electric rates are lower than fossil fuel costs. Thus, increasing electricity rates will inhibit progress towards reaching California's climate goals. We need to ensure that rates do not increase in a manner that only wealthier customers are able to afford electric vehicles and energy efficiency upgrades, like electric appliances.

Reaching the local and statewide clean energy targets will also require support to overcome challenges like unprecedented investments in transmission infrastructure, record breaking construction costs for clean energy generation and storage, advancing technologies, and supporting workforce development. For example, one SCPPA Member estimates that achieving 100% clean energy and zero-carbon targets will already result in ratepayer increases of 3.3 - 8.4% annually⁸. Achieving these goals will only be made more challenging with increased costs and reduced funds available for investing in development. Keeping electricity rates affordable and continuing local governance over POU use of allocated allowance value

⁷ Fostering Effective Energy Transition 2023 Report. <https://www.weforum.org/reports/fostering-effective-energy-transition-2023/in-full>

⁸ LADWP Strategic Long-Term Resource Plan. https://www.ladwp.com/ladwp/faces/ladwp/aboutus/a-power/a-p-integratedresourceplanning?_afdf.ctrl-state=52qu24f7r_4&_afdfLoop=215387062552204

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will also avoid disproportionately passing on clean energy investment costs to customers in low-income communities.

II. **Requiring POU to consign all allocated allowances to auction risks increasing ratepayer costs without any benefits to Californians.**

(A) Requiring POU consignment increases financial risk and ratepayer costs.

The Cap-and-Trade regulation explicitly prohibits using allocated allowance value for the purchase of allowances for compliance or to pay carbon costs⁹. If CARB forces POUs to consign all their allocated allowances to auction instead of using some directly for Cap-and-Trade compliance, POUs would need a separate source of funding to purchase allowances for Cap-and-Trade compliance. To purchase allowances at the auction would necessitate securing the required line of credit which could exceed tens to hundreds of millions of dollars annually and potentially impact POU and/or municipal creditworthiness. Without a dedicated revenue source, this action would be improbable. This forced financing of compliance costs would undoubtedly increase electricity rates and financially impact customers beyond the direct cost of compliance due to costs associated with credit ranging from annual fees to interest costs. By continuing to allow POUs to use their allowance allocation to satisfy compliance requirements, POU electricity rates are kept lower, thereby protecting customers from the compliance cost of the Cap-and-Trade program. High energy bills are most burdensome to low-income households where their energy bill is a higher portion of their income¹⁰. The IOU-model climate dividend – once or twice a year \$30-\$40 dividend payment – may not be helpful to some POU ratepayers, since the average monthly POU bill would increase up to \$15 per month for residential customers if Cap-and-Trade compliance costs were to be incorporated into rates. The POU strategy to protect their ratepayers is to apply the carbon price signal on the supply side to reduce GHG emissions from generation of electricity, by prioritizing the dispatch of low-GHG emitting resources, rather than including the carbon price in retail customer rates.

The concept of forced consignment of allocated allowances – selling and then separately buying allowances at the auction or from third parties – adds market risk, administrative burden, and cost to the compliance strategy of POUs. Not all POUs consign today, and certainly not all POUs trade on the open carbon market. Many SCPPA members are considered very small utilities with limited bandwidth and staffing. Adding the complexity of consignment is not a trivial nor straightforward effort, especially given the inertia of a decade-old program.

⁹ Title 17, CCR, § 95892(d)(7)(B)

¹⁰ DOE Low-Income Household Energy Burden Varies Among States — Efficiency Can Help In All of Them.

<https://www.energy.gov/scep/slsc/articles/low-income-household-energy-burden-resource-summary>

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If required to consign all allocated allowances, POUs that have a Cap-and-Trade compliance obligation would be forced to increase electricity rates to purchase allowances for compliance. It is worth noting that requiring POU consignment and purchase of allowances for compliance would not reduce GHG emissions or support the state's Scoping Plan goals.

(B) Electricity sales currently include carbon costs, and carbon costs are being used to prioritize the dispatch of lower emitting generating resources.

Wholesale electricity sales include energy production costs as well as carbon compliance costs (as applicable depending on the generating resource). Within the context of the Western Energy Imbalance Market (WEIM), California's generating units have their carbon cost embedded in their electricity price, and out-of-state resources have the option of selling electricity into California and a carbon cost is included when doing so. Thus, regardless of the origin, wholesale electricity sales in California include the cost of carbon.

SCPPA members include a "carbon cost adder" in the dispatch of their generating resources, which results in prioritizing the use of lower carbon-emitting resources to meet the needs of their customers. This results in environmental, as well as economic, dispatch of generating resources, reduces GHG emissions on the supply side, and has contributed to the significant GHG emission reductions achieved by the California electric sector since the start of the Cap-and-Trade program in 2013.

Since the cost of carbon is already embedded in wholesale market electricity sales and is being used to prioritize the dispatch of lower emitting resources to serve customers, there is nothing to be gained by requiring POUs to consign all their allocated allowances to auction and then buy allowances for compliance. While CARB asserts that tracking carbon costs is a cumbersome administrative task for staff, requiring POU consignment comes at greater administrative cost to POUs and risk to ratepayers.

(C) POUs submit reports to CARB annually, providing the information needed for public transparency without requiring POUs to consign all their allowance allocation.

At the July 27th workshop, CARB staff cited transparency as a key rationale for their consideration of requiring consignment of all POU allocated allowances. However, transparency already exists in the form of annual reporting to CARB on the use of allocated allowance value. Currently, all POUs and IOUs are required to fill out an "Electrical Distribution Utility (EDU) Allowance Value Form" annually by June 30th¹¹, which quantifies and describes how EDUs use allocated allowance value for GHG reduction activities and compliance. This reporting form is a multi-tabbed spreadsheet which includes both qualitative and quantitative inputs including allowance values, categories of available usage, estimated lifetime GHG benefits, project dates and other pertinent data. Each EDU also must describe how its use of auction

¹¹ Title 17, CCR, § 95892(e)





proceeds from allocated allowance value meets the requirements of section 95892(d) of the Regulation and the requirements of Assembly Bill 32 (AB 32; California Health and Safety Code sections 38500 et seq.).

This reported use of allowance value data is collected, analyzed and summarized by CARB into a publicly available report¹². The latest report breaks out the data for IOUs and POU's. If additional detail or transparency is needed with regards to the existing reporting protocols, SCPPA is ready and willing to discuss this further with CARB staff to identify a mutually agreeable solution that does not force POU's to consign all their allocated allowances to auction.

(D) Providing flexibility for POU's to consign or not consign allocated allowances supports optimizing GHG emissions reductions.

From the beginning of the Cap-and-Trade program, the difference between IOUs and POU's has been recognized by CARB. Due to legislative requirements passed in the 1990's, IOUs no longer own generating assets that carry direct compliance obligations. However, POU's are still vertically integrated and do own generation. The overlay of the CPUC for IOUs, and oversight of their revenues, also represents a major difference since POU's are governed locally by elected representatives from within their communities. As Such, POU's are directly accountable to the residents and businesses they serve. While both IOUs and POU's share a responsibility for a reliable grid, SCPPA Members have the additional task of operating generation assets that they own to provide reliable and affordable electricity to their customers.

It is important to recognize that POU's vary greatly due to size, location, and available resources. SCPPA Members range from the nation's largest POU – LADWP – that serves over four million residents in Los Angeles, to some of the smallest POU's in the state. SCPPA Members are located within three different balancing authorities (CAISO, LADWP, and the Imperial Irrigation District). When it comes to POU's, one size does not fit all. Some POU's directly operate fossil-fueled electricity generating resources, some participate in joint projects, some have access to low-carbon generating resources, and some do not operate any generating resources.

Given the differences between IOUs and POU's, and the variability among the POU's, CARB should recognize that a flexible approach for POU's is the best fit for optimal implementation of the Cap-and-Trade program. At the July 27th workshop, CARB shared that most POU's have consigned allocated allowances. While most POU's do consign a portion of their allowance allocation, it is vital that POU's not be required to consign *all* of their allowance allocation. By allowing POU governing boards to control the

¹² Cap-and-Trade Program Summary of 2013-2021 Electrical Distribution Utility Use of Allocated Allowance Value. https://ww2.arb.ca.gov/sites/default/files/cap-and-trade/allowanceallocation/edu_2013to2021useofvaluereport.pdf

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use of their allowances, POUs can best optimize their GHG reduction programs for the benefit of their customers.

III. Retaining Reliable POU Allowance Allocation Protects Ratepayers.

Regulatory Certainty Supports Renewable and Customer Investments.

SCPPA Members support keeping the current POU allowance allocation methodology in the Cap-and-Trade program. The Cap-and-Trade program has historically allocated allowances to POUs to provide ratepayer relief and incentivize utility investments in projects and programs that reduce GHG emissions. As prescribed in the Cap-and-Trade program 95892(d)(3)(A)-(D), SCPPA Members use their allocated allowances for direct compliance obligations, transitioning to renewable energy, reducing GHG emissions, implementing community benefit programs, and investing in community level projects and programs – examples include installing DC fast chargers, LED streetlight retrofits among many other fuel switching and energy efficiency programs.

The primary objective of the Cap-and-Trade program is to reduce GHG emissions, and it continues to work as intended. The Cap-and-Trade program granted EDUs a fixed 10-year allocation with the intent of encouraging early action to reduce GHG emissions, with the ability to recoup the expenses from the value of their allocated allowances over the course of ten years. Any significant changes to the Cap-and-Trade program risks penalizing public utilities that relied on receiving those allowances to make significant investments in “early action” projects that have already reduced emissions. In the current regulation, the allowance allocation for half of the SCPPA Members is declining more than 40% between now and 2030, thus exceeding the Senate Bill 32 emission reduction goal. SCPPA Members realize that adjustments may be required for legislation, such as SB 100. However, resetting the baseline used to determine allocated allowances and reducing those allowances further will be to the financial detriment to those POUs that took early action to reduce emissions and eliminate a valuable source of funding to invest in future clean energy and energy storage projects. As SCPPA Members work towards achieving their own and the State’s clean energy policies, regulatory consistency is critical given the long-term planning necessary to reduce GHG emissions.

SCPPA Members rely on regulatory certainty in the Cap-and-Trade program and the anticipated proceeds from the sale of allocated allowances to plan and budget for investments in GHG emission reduction strategies through 2030. Any changes to the Cap-and-Trade program that will reduce, eliminate, or continuously adjust the direct allocation of allowances to POUs will create budget uncertainty for emission reductions that are currently funded with Cap-and-Trade allowance value, adding pressure for POUs to recover funding shortfalls by increasing rates or reducing customer program offerings.

In summary, the Cap-and-Trade program should avoid imposing additional cost burdens on the electricity sector that provide no added benefits to achieving the state's clean energy goals. Instead, the Cap-and-

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Trade program should focus on ways to support the electricity sector's continued real and measurable GHG reductions. In example, by preserving the EDU allowance allocation to support decarbonizing the electricity supply and keeping electricity affordable, to help the state achieve its clean energy goals, including the Scoping Plan statewide emission reduction and carbon neutrality goals.

Conclusion

SCPPA appreciates this opportunity to provide feedback to CARB regarding the July 27, 2023, workshop on Potential Amendments to the Cap-and-Trade Regulation. SCPPA supports the comments submitted by its members, the Joint Utility Group, and CMUA, and looks forward to working collaboratively with CARB to support the Cap-and-Trade program.

Elisabeth de Jong
Government Affairs Manager
Southern California Public Power Authority
915 L St., Suite 1410
Sacramento, CA 95814

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