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Ms. Rajinder Sahota
Deputy Executive Officer, Climate Change & Research
California Air Resources Board
P.O. Box 2815
Sacramento, CA 95812

Submitted electronically

SUBJECT: SDG&E Comments on the July 27, 2023, Workshop on Potential Amendments to the Cap-and-Trade Regulation

Dear Ms. Sahota:

Introduction

San Diego Gas & Electric Company (SDG&E) appreciates the opportunity to provide feedback on the California Air Resources Board (CARB) July 27 workshop on potential amendments to the Cap-and-Trade (C&T) regulation. A well-designed C&T program is a critical tool for achieving the significant emissions reductions called for in the 2022 Scoping Plan Update. SDG&E respectfully offers the below comments on the workshop and looks forward to continuing to engage with CARB staff as C&T development progresses.

I. As CARB considers which allowance budget scenario is the most appropriate for achieving the "maximum technologically feasible and cost-effective" greenhouse gas (GHG) emissions reductions,[1] SDG&E urges consistency with the adopted 2022 Scoping Plan Update.

During the workshop, CARB presented three allowance budget scenarios with different endpoints aligning with 40%, 48%, and 55% below 1990 GHG emissions levels by 2030. SDG&E is supportive of CARB's interest in modeling a variety of

[1] California Health and Safety Code Section 38562 directs CARB to establish regulations that "achieve the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions" in accordance with the requirements of SB 32 and AB 1279.

scenarios and agrees that the results of the modeling will provide valuable information for assessing the anticipated costs and benefits of these scenarios.

While we look forward to reviewing the information resulting from the modeling, SDG&E notes that the 48% scenario aligns with the adopted 2022 Scoping Plan update and balances aggressive emissions reductions strategies with important technical feasibility considerations and project development timelines.

The Scoping Plan was developed through a robust stakeholder process, including presentation of economic and emissions modeling results. Resulting from this process was a final Scoping Plan that highlighted many critical considerations for achieving an aggressive 48% reduction below 1990 GHG levels by 2030, such as the need for historic amounts of new renewable resources, clean fuels, and carbon removal strategies. Significant investments in energy infrastructure will be needed to support the production, use, and delivery of clean resources. CARB's consideration of the various Scoping Plan scenario alternatives weighed valuable information regarding technological feasibility and economic impacts. Evaluation of these areas will be critical to inform the C&T scenarios as well.

II. Reasonable planning horizons will help reduce regulatory uncertainty and could inform the potential need for future policy changes.

SDG&E is supportive of CARB staff's indications that changes to the allowance budget would be forward looking, occurring no earlier than 2025. Making changes on a shorter timeframe would impact the current compliance period, for which covered entities have already planned for and procured compliance instruments to satisfy their obligations. A shift mid-compliance period would potentially create a significant disruption to the market by spiking prices.

To further support evaluation of cost impacts over the near-, mid-, and long-terms, SDG&E supports CARB evaluating allowance budgets for the 2031-2045 timeframe. AB 1279 (Statutes of 2022) directs CARB to recommend measures that achieve the policy goal of achieving net zero GHG emissions as soon as possible, but no later than 2045, and maintaining net negative GHG emissions thereafter.[2] SDG&E recognizes that more detailed discussions on the potential extension of the program will be needed. However, modeling that explores a variety of scenarios will be helpful for understanding the cost implications of potential policy changes. As part of these analyses, CARB should weigh the potential impacts to utility ratepayers.

[2] Assembly Bill 1279 (Statutes of 2022): https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202120220AB1279.

III. Allowances from the Allowance Price Containment Reserve and Price Ceiling should be retired before considering reductions from the Auction and Allocations Pool.

During the workshop, CARB identified three pools that are under consideration for retiring California allowances to meet the allowance budget scenarios. These pools are 1) Price Ceiling, 2) Allowance Price Containment Reserve (APCR), and 3) Auction and Allocation. Both the Price Ceiling and the APCR pools were established by CARB as a method to maintain cost containment within the C&T program. As part of the annual allocation process, these pools receive allocated allowances and the balance of these pools have continued to increase since program inception. To date, CARB has not held any reserve or price ceiling sales. This implies that cost containment measures have not been needed thus far. As CARB looks to reduce the number of allowances in the program, SDG&E supports an approach that retires a sizeable quantity of allowances from both the Price Ceiling and APCR pools prior to making retirements from the Auction and Allocation pool. While SDG&E believes it would not be prudent to fully deplete both the Price Ceiling and APCR pools, a sizable portion of the volume should come from these before any reductions are made from the Auction and Allocation pool.

IV. When incorporating the latest GHG inventory, any proposed changes to specific sector allowances should recognize the contributions that sectors have made to date.

The GHG emissions inventory highlights the significant contributions that the electric sector has made in reducing sector emissions. Over the past two decades, the electricity sector has reduced GHG emissions by more than 40%.[3] In 2020, the electricity sector accounted for approximately 16% of the state's emissions.[4] Emissions from electricity generation will continue to decrease over time as state policy drives utilities to providing 100% renewable and zero-carbon resources by 2045.[5] The electricity sector will continue to play a vital role in supporting the decarbonization of other sectors (i.e., transportation, industrial) for years to come; the success of this transition requires affordable electricity.

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[3] *See Figure 8* in California Air Resources Board 2000-2020 GHG Emissions Trends Report Data; available at: https://ww2.arb.ca.gov/sites/default/files/classic/cc/inventory/2000-2020_ghg_inventory_trends_figures.xlsx.

[4] *See Figure 4* in *California Greenhouse Gas Emissions for 2000-2020: Trends of Emissions and Other Indicators*; available at https://ww2.arb.ca.gov/sites/default/files/classic/cc/inventory/2000-2020_ghg_inventory_trends.pdf.

[5] California Public Utilities Code Section 454.53 requires that "eligible renewable energy resources and zero-carbon resources supply 90 percent of all retail sales of electricity to California end-use customers by December 31, 2035, 95 percent of all retail sales of electricity to California end-use customers by December 31, 2040, 100 percent of all retail sales of electricity to California end-use customers by December 31, 2045, and 100 percent of electricity procured to serve all state agencies by December 31, 2035."

As CARB evaluates how to account for any reductions to the overall allowance budget, it should factor in the relative contributions that sectors have made in reducing emissions to date and ensure that adjustments made to the budget do not penalize the early actions that certain sectors, like the electricity sector, have taken to decarbonize.

V. The use of allocated allowance value should continue to provide affordability protections for electric and natural gas utility customers.

As the State ventures into deeper decarbonization of energy sources, the costs associated with new infrastructure and resources are putting upward pressure on utility bills. Direct allocation of allowances to EDUs generate funding for the California Climate Credit and statewide Clean Energy and Energy Efficiency ("CEEE") programs. The California Climate Credit provides customers with direct relief on their utility bills, providing valuable support for our customers who may be financially strained. It further creates a more favorable incentive for customers who may be exploring pathways to electrification of appliances and vehicles. SDG&E currently provides its customers with a climate credit three times each year. In 2023, the credits were distributed in February, March, and October.[6] These funds support energy affordability by reducing energy costs. The CEEE programs create a funding pathway to deploy technologies that further decarbonize other sectors. These programs provide support for low-income customers and customers in disadvantaged communities.[7] If directly allocated allowances for EDUs are reduced, other means to reduce ratepayer bills and fund these programs that support energy affordability should be implemented to achieve California's emissions reduction goals.

VI. CARB should proceed with its proposal to directly allocate to Emission-Intensive, Trade Exposed (EITE) industrial customers.

SDG&E agrees with the recommendation of the Joint Utility Group (JUG) that CARB should modify the regulation to directly allocate allowances to address the carbon costs associated with purchased electricity for EITE entities. During the workshop, CARB acknowledged that allowances have already been deducted from EDUs post-2020 for this purpose. However, the change to implement the direct allocation has not yet occurred. Currently, IOUs are required to continue providing an EITE credit despite not receiving allowances from CARB (since deduction for this process has already been accounted for). SDG&E supports CARB addressing this inconsistency in the upcoming update to the regulation.

[6] In 2023, SDG&E's gas climate credit of $43.40 was provided to customers in February, while an electric climate credit of $60.70 was provided to customers in March with a second electric credit of the same amount forthcoming in October. For more information on SDG&E's distribution of the California Climate Credit, visit https://www.sdge.com/climatecredit.
[7] For more information on the CEEE programs, visit https://ww2.arb.ca.gov/sites/default/files/cap-and-trade/allowanceallocation/edu_2013to2021useofvaluereport.pdf.

Conclusion

Thank you for your consideration of SDG&E's comments. The C&T program has contributed to our State's great progress in reducing GHG emissions over the last decade and, with proper design features, could continue to provide climate benefits for years to come. SDG&E stands ready to engage in CARB's process for updating the regulation in a way that assures that clean, reliable, and safe energy can be provided to our customers with an eye toward maintaining affordable energy costs.

Please do not hesitate to contact me should you have any questions.

Sincerely,

Sarah M. Taheri

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