

August 17, 2023

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

RE: Joint Utilities Group Comments on Potential Amendments to the Cap-and-Trade Regulation

Dear Ms. Sahota:

The “Joint Utilities Group”¹²³⁴⁵(JUG) appreciates the opportunity to offer comments on the July 27, 2023 workshop hosted by the California Air Resources Board (CARB) to discuss potential amendments to the Cap-and-Trade Regulation including allowance budget scenarios, allowance allocation, and utility use of allowance value. The JUG consists of investor-owned and publicly-owned utilities, and electric cooperative utilities in California. We look forward to working with your staff and other stakeholders in the upcoming public process to design modifications to the Cap-and-Trade Program (Program) that will help facilitate the achievement of California’s ambitious climate goals while minimizing impacts to California residents and the economy.

One important contribution of the Program has been to provide regulatory certainty and encourage investment in emission reduction technologies and strategies across all economic sectors and the JUG continues to believe that a well-designed Program is an essential tool for achieving the goals set forth in the 2022 Scoping Plan Update (SPU). Other established California climate programs, such as the SB 100 Joint Agency Report, the Low Carbon Fuels

¹ Pacific Gas & Electric Company, San Diego Gas & Electric Company, Southern California Edison Company, Sacramento Municipal Utility District, Turlock Irrigation District, Liberty Utilities, Bear Valley Electric Service, the Northern California Power Agency, Southern California Public Power Authority, Golden State Power Cooperative, PacifiCorp, and the California Municipal Utilities Association.

² The Northern California Power Agency (NCPA) is a nonprofit California joint powers agency established in 1968 to construct and operate renewable and low-emitting generating facilities and assist in meeting the wholesale energy needs of its 16 members: the Cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, Shasta Lake, and Ukiah, Plumas-Sierra Rural Electric Cooperative, Port of Oakland, San Francisco Bay Area Rapid Transit (BART), and Truckee Donner Public Utility District—collectively serving nearly 700,000 electric consumers in Central and Northern California.

³ The Southern California Public Power Authority (SCPPA) is a joint powers agency whose members include the cities of Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, Los Angeles, Pasadena, Riverside, and Vernon, and the Imperial Irrigation District. SCPPA Members collectively serve nearly five million people throughout Southern California. Each Member owns and operates a publicly-owned electric utility governed by a board of local officials who are directly accountable to their constituents.

⁴ The California Municipal Utilities Association is a statewide organization of local public agencies in California that provide electricity and water service to California consumers. CMUA membership includes publicly-owned electric utilities that operate electric distribution and transmission systems. In total, CMUA members provide approximately 25 percent of the electric load in California.

⁵ Golden State Power Cooperative (GSPC) is the association representing California’s rural electrical cooperatives: Anza Electric Cooperative, Plumas-Sierra Rural Electric Cooperative, and Surprise Valley Electrification Corp

Standard (LCFS), Renewable Portfolio Standards (RPS), Advanced Clean Fleets (ACF), Senate Bill 350⁶, Senate Bill 905⁷, Senate Bill 1383⁸, and Executive Order N-79-20 are also important elements of the state’s climate program that will contribute to meeting the SPU’s targets and help provide regulatory certainty to program participants, and encourage clean technology investments. Each of these along with Cap-and-Trade, have a shared goal of helping decarbonize California and as such are intertwined; none can be implemented or assessed in isolation. Therefore, it is important that CARB view any potential changes to the Program with a holistic lens that takes into account the effects of these other statewide efforts, especially given Cap-and-Trade’s ability to provide emissions reductions that other programs fail to achieve. Similarly, contemplated changes to individual aspects of the Program will need to be modeled to prevent unintended consequences that multiple changes can have far greater impact to the program than the cumulative impact of each individual change.

Scenario Modeling

Scenario modeling is critically important to fully understand the impacts and implications of the various SPU scenarios. The JUG supports using the SPU to guide updates to the Program and in particular to help inform the updated annual caps or allowance budgets. The JUG agrees that it is important to consider multiple allowance budget scenarios and supports CARB’s commitment to build out the initial scenarios through 2045 in alignment with the SPU and AB 1279⁹ time-horizons. Evaluating the impact of each scenario via modeling will allow an allowance budget that is both cost-effective and supports the SPU.

The SPU includes bold and aggressive goals, some of which rely heavily on technologies and resources that are nascent or still under commercial development in California. While it is important to embrace these new technologies and ascertain the extent of their full potential, it is also important to investigate and understand any impediments to developing or implementing those technologies. The JUG appreciates that CARB will consider risk sensitivities and uncertainties regarding carbon capture and hydrogen infrastructure availability as those technologies have been shown to be necessary to accomplish the SPU target of 48% below 1990 emission levels in 2030.

Utility Allowance Allocation

The success of the SPU will depend in large part on ensuring that clean, reliable, and affordable energy is available in California’s economy, including in the transportation, buildings, and

⁶ de León, Chapter 547, Statutes of 2015

⁷ Caballero, Chapter 359, Statutes of 2022

⁸ Lara, Chapter 395, Statutes of 2016

⁹ AB-1279 The California Climate Crisis Act. California Legislative Information.

https://leginfo.ca.gov/faces/billNavClient.xhtml?bill_id=202120220AB1279

industrial sectors. **Continued and predictable allowance allocation to utilities is critical to support the future needs of a clean, reliable, and affordable electricity grid. It is imperative that energy is accessible for all Californians and especially for our vulnerable, low-income, and priority communities.** As seen on slides 37 and 38 of CARB’s workshop presentation, from 2013 to 2021, \$15.7 billion of utility allowance value was used for the protection and benefit of ratepayers. \$5.9 billion was used for compliance costs which had a direct, downward impact on rates. \$7.4 billion was used for annual or biennial climate credits. Together, these account for a collective \$13.3 billion in reductions to ratepayers’ financial cost of fighting climate change. Additionally, \$1.5 billion has been used or allocated to support clean energy GHG reduction projects such as the Solar on Multifamily Affordable Housing (SOMAH) and Disadvantaged Communities - Single-family Solar Homes (DAC-SASH)¹⁰ programs that benefit disadvantaged communities.

The JUG recommends CARB continue utility allocation of allowances to support ratepayers, including low-income ratepayers through reductions in compliance costs, residential climate credits, and via GHG reduction projects. The value provided by utility allocation to ratepayers, including potential changes to expand benefits to low-income and priority communities, should be kept front of mind when considering overall allowance allocation budgets. Changes to utility allowance allocations, as well as changes to current rules governing consignment of allowances of POUs or cooperatives, that may significantly increase hardships to these communities in the form of increased compliance costs, and thus rates, should be weighed against other opportunities. The JUG agrees it is reasonable for CARB to review all elements of Cap-and-Trade to assess benefits to low-income and priority communities and assess whether any changes may be needed and looks forward to working with CARB, and other stakeholders on this topic.

Allowance Reduction to Support Future Budget Scenarios

The JUG supports CARB’s position to retain banking and hedging within the Program. Removing compliance entities’ allowance banks would punish early action, introduce uncertainty, and lead to higher costs for Californians. Ratepayers’ banked allowances should retain their value, otherwise if banked allowances were removed, retired, or devalued, ratepayers would need to re-buy those allowances to meet compliance, thereby increasing costs to ratepayers.

Of the potential reduction pools, the JUG supports looking at the possibility of removing the 77.7 million allowances currently held in the Price Ceiling. While cost containment is an important program design feature, CARB already has the ability to provide additional allowances at the price ceiling (coupled with actions to maintain the environmental integrity of the program), which can provide the same functionality.

¹⁰Solar in Disadvantaged Communities. California Public Utilities Commission. <https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/demand-side-management/solar-in-disadvantaged-communities>.

Emission-Intensive, Trade Exposed (EITE) Electricity Allocation

The JUG recommends that CARB make the necessary amendments to directly allocated allowances to address the carbon costs associated with purchased electricity for EITE entities. As noted in the workshop slides, CARB already deducted allowances from EDUs post-2020 for this purpose but has not implemented the direct allocation. The JUG supports providing the same leakage protection to both POU and IOU industrial EITE customers by having CARB provide the electricity allocation to them directly.

Conclusion

The JUG reiterates its support of a well-designed California Cap-and-Trade Program that aligns with the SPU's trajectory to achieve statewide decarbonization and carbon neutrality. The JUG encourages CARB to model and consider the impacts of its possible updates both within the Cap-and-Trade Program and beyond to better secure the possibility of meeting the SPU and California's environmental goals.

We look forward to working with CARB in the upcoming rulemaking on how to achieve these objectives.