Sarah M. Taheri
Regulatory Affairs Manager

925 L Street, Ste. 650
Sacramento, CA 95814

cell: 916.708.7409
email: staheri@sdge.com

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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 October 5, 2023, Workshop on Potential Amendments to the Cap-and-Trade Regulation

Dear Ms. Sahota:

The San Diego Gas & Electric Company (SDG&E) appreciates the opportunity to provide comments on the California Air Resources Board (CARB) recent workshop considering potential amendments to the Cap-and-Trade Regulation.

Affordable electricity is a necessity for advancing state climate policy. Electric distribution utilities (EDUs), like SDG&E, will play an important role in providing clean electricity to facilitate the decarbonization of other sectors, like transportation and buildings. Supporting future electric grid needs will require additional clean energy generation resources and the transmission and distribution infrastructure to deliver power reliably to homes and businesses. Investments like these will come with costs for ratepayers, underscoring the importance of exploring and pursuing measures that help to manage energy bill impacts for Californians.

The initial workshops on Cap-and-Trade make clear CARB's intent to reduce the overall number of allowances available in the program. Depending on the alternative evaluated, the questions of *from where* allowances should be reduced and *by how much* could yield significantly different impacts on the cost of advancing our shared goal of reducing greenhouse gas (GHG) emissions. SDG&E recognizes that more detailed analysis will be critical for understanding both of these important questions. As part of that process, SDG&E encourages CARB to specifically evaluate how proposed changes to the Cap-and-Trade regulation might impact energy (both electricity and gas) affordability in the near- and mid-term as well as through our longer-term 2045 planning horizon. SDG&E

anticipates that the forthcoming initial modeling results evaluating allowance prices under different allowance budget scenarios will provide valuable insights for assessing the possible impacts of proposed changes.

SDG&E respectfully offers the following comments in response to staff's presentations:

I. Evaluating post-2030 program design could help reduce regulatory uncertainty, providing more clear signals for compliance entities and resulting in greater market stability.

SDG&E notes that providing estimations for how the allowance budget, and even EDU allocations, might shift in a post-2030 Cap-and-Trade landscape could provide clear market signals that support achieving our mid-century decarbonization goals at a lower cost. Waiting to introduce changes to allowance budget and allocations in a subsequent, yet still pre-2030, update to the Cap-and-Trade regulation truncates the amount of time available for compliance entities to respond. Such an approach could create significant volatility to the market in the years leading up to the critical year 2030.

During the workshop, CARB staff outlined two options, with various potential scenarios, for post-2030 allowance budget.[1] Aligning with a scenario that is based on the Scoping Plan Option 1 emissions target method, rather than the Option 2 allowance budget method, would best support the achievement of State climate policy at a lower cost. Additionally, CARB should further explore whether an option that does not result in an artificially low 2030 value could be implemented to facilitate more cost-effective decarbonization efforts.

II. Reductions to EDU and natural gas supplier (NGS) allowance allocations should be minimized given the important and direct energy affordability protections they provide via the California Climate Credit and decarbonization programs.

During the workshop, CARB staff posed a question as to how EDU allocations could be updated to reflect state climate policies. The current allocations are based on 2015 demand and supply forecast data. Since the last update of the Cap-and-Trade program, the State has adopted several landmark policies that will drive extensive amounts of electrification across multiple sectors to support our overall decarbonization strategy. In parallel, the emissions associated with that electricity will reduce as electric utilities serve their customers with an increasingly cleaner resource portfolio. EDUs are taking swift action to decarbonize electricity generation and serve Californians with clean power. Aligning with state climate policies calls for a transition to carbon neutrality by 2045 that is technologically feasible, cost-effective, and equity-focused.[2] As discussed above, the

[1] *See* Slide 34 of CARB's Afternoon Presentation for the October 5, 2023, Cap-and-Trade Workshop at https://ww2.arb.ca.gov/sites/default/files/2023-10/nc-CapTradeWorkshop_Oct052023_0.pdf.
[2] *See* page 1 of the *2022 Scoping Plan for Achieving Carbon Neutrality*, available at: https://ww2.arb.ca.gov/sites/default/files/2022-12/2022-sp_1.pdf.

allowance allocations provided to EDU and NGS entities are critical to supporting a decarbonization transition that is *cost-effective and equity-focused* by providing important ratepayer protections and supporting lower cost implementation of clean energy programs.

Although the October 5 workshop did not focus on NGS allocations, the discussion around allowance budget scenarios indicates a forthcoming change to the Cap Adjustment Factor (CAF) that is likely to result in a reduction to NGS allocations. Like EDU allowance proceeds, the NGS allowance proceeds for gas corporations also support the Climate Credit and decarbonization programs.

Understanding anticipated changes to allowance pricing will be imperative to analyzing the specifics around how these respective EDU allocation scenarios, and any anticipated changes to NGS allocations, would impact energy affordability. However, as a general perspective, it is anticipated that the larger the reduction in EDU and NGS allocations are, it is likely a lower amount of funding will be available to support equity programs and to assist with ratepayer affordability. In addition, a larger reduction in EDU/NGS allocation is more likely to increase costs borne by ratepayers for the utility's compliance with the Cap-and-Trade Regulation.

The electric sector has outpaced emissions reductions compared to other sectors and its ratepayers are incurring the costs of this acceleration. Considering this, adopting policies that increase utility costs works contrary to the overarching objectives of supporting electrification as a decarbonization strategy and ensuring an equitable transition. For this reason, SDG&E urges CARB to ensure that proposed approaches maximize funding available to support equity programs while minimizing utility ratepayer bill impacts.

III. The emissions factor for unspecified imports should be updated to more accurately reflect the current carbon intensity of the power grid.

In Section 95111(b) of CARB's existing Mandatory GHG Reporting Regulation, an emissions factor of 0.428 metric tons per megawatt hour (equivalent to approximately 944 lb/MWh) for unspecified electricity imports is used. This value is more in line with the emissions intensity of combined cycle natural gas plants, and as such, largely overestimates the amount of emissions for the generally cleaner mix of resources imported into California. CARB should evaluate potential options for refreshing the unspecified electricity import emissions factor to align with CA's imported resources more closely—recognizing that California has taken significant strides to advance clean, renewable electricity.[3] SDG&E understands that changes to the unspecified emissions factor may impact other regulatory programs; SDG&E encourages CARB to explore the potential impacts for any change pursued.

[3] One possible source could be US EPA's Emissions & Generation Resource Integrated Database or eGRID3 general emissions factor for the WECC – California Subregion. This eGRID factor, which is more tailored to California, provides a much lower value of approximately 532 lb/MWh (roughly 0.241 MT/MWh).

Thank you for your consideration of SDG&E's comments. Please do not hesitate to contact me should you have any questions about the information provided in this letter. SDG&E appreciates CARB staff's diligence in facilitating a robust stakeholder process to inform updates to this important regulation.

Sincerely,

Sarah M. Taheri
Regulatory Affairs Manager