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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, October 5, 2023, Workshop

The Southern California Public Power Authority[1] ("SCPPA") appreciates the opportunity to provide feedback on the Cap-and-Trade Public Workshop hosted by the California Air Resources Board (CARB) staff on October 5, 2023.

SCPPA understands and supports that the primary objective of the Cap-and-Trade Program (Program) is to reduce GHG emissions through market signals and a steadily increasing carbon cost. We also recognize that the Program is designed to provide covered entities the flexibility to seek out and implement the lowest cost options to reduce emissions through long-term investments based on the stability and structure of the Program. As prescribed in the Cap-and-Trade regulation section 95892(d)(3)(A)-(D), SCPPA Members use their issued and specified future allocated allowances for direct compliance obligations and reducing GHG emissions via regulatory authorized transitions to renewable energy, implementing community benefit programs, and investing in community level projects and programs.

The design of the Program for Publicly Owned Utilities, or POUs, creates a positive cycle of *reducing* GHG emissions and *investing* in projects/programs that ultimately lead to further reductions. Since the Program's enactment, the electricity sector has responded and made significant early investments to reduce GHG emissions. In fact, California's electricity sector GHG emissions reached a multi-year low for the month of September in 2023 as a result of continued increases in renewable energy.[2] As other sectors reduce their carbon footprints, the electricity sector has consistently reduced sector emissions while simultaneously playing the critical role of maintaining grid reliability and ratepayer affordability.

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[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] See https://carbon-pulse.com/231373/?utm_source=CP+Daily&utm_campaign=8c3344ff7e-CPdaily24102023&utm_medium=email&utm_term=0_a9d8834f72-8c3344ff7e-110258949

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SCPPA, its Members, and their customers would be significantly affected by the changes CARB is considering making to the Program. SCPPA has serious concerns regarding some of the potential proposals discussed at CARB's October 5th workshop, as detailed in the comments below.

I. Any reduction of POU allowance allocation before 2030 must be limited in order to support ongoing regulatory certainty and allow POUs to continue to effectively provide affordable electricity and support electrifying the grid equitably.

During the last rulemaking in 2017, CARB made a definitive policy decision to grant EDUs a fixed 10-year allocation with the intent of encouraging early action to reduce GHG emissions. The intent was to allow EDUs to recoup the expenses from projects with the future value of their allocated allowances. This decision resulted in a ten-year allocation schedule (Table 9-4 in the current regulation). SCPPA is pleased to say the policy worked. We have previously detailed many of the successful programs implemented by our members.

Any significant changes to the Program allocations risks penalizing public utilities that relied on receiving those allowances to make significant investments in "early action" projects that have *already* reduced emissions. Resetting the baseline used to determine allocated allowances and reducing those allowances further will be to the financial detriment to those POUs and ultimately borne by POU ratepayers. Furthermore, resetting the baseline will eliminate a valuable source of funding to invest in future clean energy and energy storage projects. As SCPPA Members work towards achieving their own local, as well as, the state's clean energy policies, regulatory consistency is critical given the long-term planning necessary to reduce emissions from this sector.

Understanding that CARB intends to make the Program more stringent to meet the state's ambitious climate targets, including SB 100, SCPPA acknowledges the appropriateness and policy consistency associated with reducing Table 9-4 allowances to reflect the statutory increase in the Renewables Portfolio Standard (RPS) to 60%. However, SCPPA asserts that any additional reductions, or doing a "full update," would greatly diminish regulatory certainty, penalize utilities for early action, and lead to increased customer rates.

Utilities are behind successful implementation of the state's electrification goals and thus key to achieving future reductions in carbon emissions. Therefore, when considering where to reduce allowances going forward, SCPPA requests that CARB consider allowances from other sectors than EDUs. Additionally, the 77.7 million allowances in the Price Ceiling should be considered, if there are not sufficient allowances available to be removed from sectors other than EDUs. While there are statutory mandates regarding the creation, and initial funding, of the price ceiling, there may be opportunities to remove allowances from the price ceiling at this point in time.

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SCPPA recognizes that the electricity sector has the unique and pivotal role of driving and supporting GHG emissions for all sectors. POU customer rates are directly impacted by regulatory programs such as Cap-and-Trade, and also by complementary measures such as the RPS and energy efficiency mandates. As detailed in SCPPA's August 17, 2023, comments[3] maintaining affordable customer rates is even more vital now, due to impacts of inflation and supply chain constraints that lead to increased costs. High electricity bills are most burdensome to our low-income customers and inhibit progress towards electrification of vehicles and buildings. Thus, SCPPA members rely on having sufficient allowance allocation. California ratepayers should not have to bear the significant cost burdens associated with a more stringent Cap-and-Trade program.

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

As detailed in SCPPA's August 17, 2023, comment letter,[4] the concept of mandatory POU consignment of allocated allowances adds market risk, administrative burden, and cost to the compliance strategy of POUs. Not only would this fundamentally change how some POUs participate in the market, but it could also require POUs to increase electricity rates to purchase allowances for compliance. Importantly, forcing POUs to consign all allocated allowances does not reduce GHG emissions or support the state's Scoping Plan goals. While most POUs do consign a portion of their allowance allocation, it is vital that POUs not be required to consign *all* of their allowance allocation. Not all EDUs are created equally and POU governing boards must continue to control the use of their allowances so that POUs can best optimize their GHG reduction programs for the benefit of their customers.

III. Phasing out the RPS Adjustment could create unnecessarily high costs while adding burden and risk to POU compliance with the RPS.

The RPS Adjustment, implemented from the start of the Program, represents an optional compliance obligation adjustment mechanism specifically designed to recognize the cost to EDUs in complying with a subset of renewable contracts procured to meet the RPS mandate. This CARB provision is used in cases where renewable electricity was procured by a California retail provider for compliance with the RPS program and the associated electricity was not directly delivered to the state. Due to its foundational standing in the Program, utility long-term investments have been made based on its value under the Program. Many of those investments are still active in member portfolios. The RPS Adjustment continues to be relevant and necessary today, especially as utilities face challenges with procuring long-term contracts as a result of supply chain delays, transmission constraints, interconnection backlogs, and increased competition. Some SCPPA Members may not use the RPS Adjustment, while others rely on its important role of smoothing out intermittent renewable resources.

[3] See https://ww2.arb.ca.gov/form/public-comments/submissions/5321
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The RPS and the Cap-and-Trade Program complement each other in several important ways, including having renewable procurement as a permissible category for use of allowance value. That being said, phasing out the RPS Adjustment would create additional Cap-and-Trade induced costs by raising Cap-and-Trade obligations for those who currently rely on the RPS Adjustment. SCPPA firmly believes that additional cost burdens as a direct result of the Program should be avoided. CARB's presentation indicated that there are still over 4 million metric tons claimed under the RPS adjustment, at current values this single change will increase EDU costs by over $132 million dollars annually.

From an administrative perspective, SCPPA is willing to engage CARB to see how the reporting associated with this provision can be streamlined so that it is not as onerous on Staff.

IV. Improving accuracy of GHG emissions accounting and reporting can improve the impact and reliability of the Cap-and-Trade program, including:

a. Analysis is needed to ensure the accuracy of the default unspecified emissions factor.

The unspecified emissions factor of 0.428 MT/MWh has not been updated in over ten years. This value is widely used for reporting/accounting of electricity imports and in the Western Energy Imbalance Market (WEIM), Extended Day-Ahead Markets (EDAM), among other proceedings. Due to its prevalence, SCPPA requests that CARB conduct a renewed analysis of the unspecified emissions factor and consider updating of the default unspecified emissions factor. SCPPA further requests that CARB, in an endeavor of transparency, make available the data used to update, or maintain the current, unspecified emissions factor.

b. Coordinating GHG emissions accounting with CAISO is needed to ensure accurate GHG costs.

CAISO's current market design for the EIM and EDAM market imports from out-of-state creates excess GHG costs. Currently, EIM entities are subject to GHG costs embedded in the price per MWh of market energy purchases in addition to California Carbon Allowances that are withheld by CARB from EDU allocation.

For the purpose of creating an opportunity for updates and openness for improvements in coordination with CAISO, SCPPA requests that CARB indicate in the Staff Report that CARB is open to considering other definitions of the electricity purchaser within California. This is necessary for CAISO to consider changing its GHG accounting design to consider the first jurisdictional deliverer as the electricity purchaser within California. This request does not make any direct changes, but

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instead creates an opportunity for CAISO to update the market design in a manner that will create better accounting and allocation of emission obligations to EDUs.

Conclusion

SCPPA appreciates this opportunity to provide feedback to CARB regarding the October 5, 2023, workshop on potential amendments to the Cap-and-Trade Regulation. SCPPA supports the comments submitted by its members, the Joint Utility Group, in addition to the comments we are working on with CMUA, and looks forward to working collaboratively with CARB to support the Cap-and-Trade program.

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