October 26, 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" [1][2][3][4][5][6](JUG) appreciates the opportunity to offer comments on the October 5, 2023, workshop (Workshop) hosted by the California Air Resources Board (CARB) to discuss potential amendments to the Cap-and-Trade Regulation (Regulation or Program) including allowance budget scenarios, allowance allocation, and greenhouse gas (GHG) accounting for imported electricity. The JUG consists of investor-owned utilities, publicly owned utilities, and electric cooperative utilities in California. We look forward to continuing to work with your staff and other stakeholders in the public process to design modifications to the

[1] Pacific Gas & Electric Company, San Diego Gas & Electric Company, Southern California Edison Company, Sacramento Municipal Utility District, Los Angeles Department of Water and Power, Turlock Irrigation District, Modesto Irrigation District. Liberty Utilities, Bear Valley Electric Service, the Northern California Power Agency, Southern California Public Power Authority, the California Municipal Utilities Association, Golden State Power Cooperative, and M-S-R Public Power Agency

[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.

[6] M-S-R Public Power Agency is a public agency formed by the Modesto Irrigation District, the City of Santa Clara, and the City of Redding

Program that will help facilitate the achievement of California's ambitious climate goals while minimizing electricity rate impacts to California residents and the economy.

Two important and foundational contributions of the Program towards achieving California's climate goals have been to provide regulatory certainty and to deliver emission reductions at the lowest cost. The design of the Program directly impacts electricity affordability for California residents. Thus, it is critical that amendments to the Program be viewed from the lens of how those changes can impact costs to California ratepayers – commercial, industrial, and residential. The JUG believes that several of the potential proposed changes presented at the Workshop will need to be modeled or analyzed both independently, as well as holistically. Multiple Program amendments can have far greater cumulative impact on the Program than each individually. Changes to utility allocations, emissions budgets, GHG accounting for electricity markets, how imports from unlinked jurisdictions are treated, and the potential phaseout of the Renewable Portfolio Standard (RPS) Adjustment all have financial implications for electricity customers which need to be evaluated independently and cumulatively.

The utilities are partners in the state's effort to decarbonize the electric sector and transition California's residents and businesses to electrification. As we undertake this critical transition, it is necessary to ensure electricity is affordable. The following comment topics should be viewed holistically as changes to these areas have the potential to either help or harm electricity consumers.

<u>2021-2030 Allowances</u>

The JUG understands that CARB plans to reduce the total number of allowances in the Program to meet the 2022 Scoping Plan Update (SPU) and statutory targets, and that all allowance pools are under consideration for adjustment. In reducing the number of allowances in any of the pools, CARB should consider the value that allowances provide to California electricity ratepayers and the associated impact on helping to achieve additional GHG reductions. The JUG has previously filed comments advocating for current ten-year allowance allocation to remain for the electric distribution utilities (EDUs) through 2030 and we continue to believe that CARB should avoid or minimize any reduction in the current EDU allowance allocation. We do not repeat all the arguments set forth in those previous comments[7][8], but highlight that the current allowance allocation is used for a number of programs that *directly* benefit electricity ratepayers *and* advance the state's climate goals.

The JUG believes that any changes to EDU allowance allocations, including any potential changes to how allowance value is spent, should be based on the following principles:

- Avoid rate/bill increases associated with changes in allowance allocation.

[7] JUG Comments on June 14, 2023, Cap-and-Trade workshop: https://ww2.arb.ca.gov/form/public-comments/submissions/4486
[8] JUG Comments on July 27, 2023, Cap-and-Trade Workshop: https://ww2.arb.ca.gov/form/public-comments/submissions/5391

- Maximize the direct benefit to electricity ratepayers.
- Encourage ongoing EDU-based emissions reduction programs.
- Facilitate greater positive impacts for low-income and priority communities.

With these principles in mind and understanding that CARB is still looking to reduce allowances from the 2025-2030 Program, the JUG offers the following for CARB's consideration in evaluating the pools of available allowances:

- The Allowance Price Containment Reserve (APCR): The JUG believes that CARB should not remove allowances from the APCR pool of allowances. Tightening the Program could result in even higher compliance costs and potential price volatility, which the "speed bumps" of the APCR can help mitigate and should thus be retained.

- Auction Allowances: The staff presentation on October 5 grouped auction and allocated allowances into the same pool. However, they are actually two separate pools that serve different purposes. Allowances placed into the statewide auction provide revenues for the Greenhouse Gas Reduction Fund (GGRF). These revenues are appropriated by the Legislature. The JUG believes that the economic analysis should look at how a reduction in the number of allowances placed in the auction could facilitate the necessary budget allowance reductions.

- Price Ceiling: The October 5 staff presentation notes that there are currently 77.7 million allowances in the Price Ceiling. While there are statutory mandates regarding the creation of the price ceiling, the JUG believes that CARB should consider removing allowances from the price ceiling if it cannot find sufficient allowances to retire from non-utility allowance pools.

- EDU Allocated Allowances: As the JUG has previously noted, the EDU allowance allocation should be retained to the greatest extent possible, as it provides a direct and tangible benefit to electricity ratepayers in furtherance of the state's electrification and GHG emissions reduction goals. While we await the pending economic analysis and updated data to analyze the impacts of various allocation reductions, it is not possible to provide definitive numbers of how many allowances should or should not be removed from particular pools.

  With that said, the JUG does not support CARB's option to revise the 10-year EDU allowance allocation to align with more recent electric demand and supply data in conjunction with the updated RPS target (60% by 2030), citing that this would better align with the updated Integrated Resource Planning (IRP) sector targets for 2030. Doing a "full update" would completely undo the benefits of providing regulatory certainty for a 10-year timeframe. A full update partway through the allocation period would also punish EDUs and their customers for taking earlier actions to decarbonize the electricity grid. Furthermore, such an action would make it harder, not easier, to electrify other sectors of the economy due to higher electricity rates/bills.

> Additionally, the JUG does not believe that the IRP targets should have any relevance on the number of allowances allocated to EDUs as reducing the EDU allocation is not necessary or helpful in achieving IRP GHG targets.
>
> CARB has also suggested adjusting the EDU allowance allocation consistent with the current RPS mandate and SB 100. In recognition of the CARB proposal to adjust the EDU allowance allocation to reflect the increased RPS, the JUG urges CARB to consider alternative options, such as allowing EDUs to retain those allowances that would have been eliminated consistent with a 60% RPS target, but to explore options for requiring EDUs to earmark the value received from selling those allowances, up to a certain percent, for specific uses, such as: assistance for low-income customers or priority communities, targeted electrification efforts or grid investments, procurement of zero carbon energy, or for other programs that EDUs – either through their governing boards or the California Public Utilities Commission (CPUC) – have established to assist electricity customers.

Auction proceeds and allowance value have had – and can continue to have – a significant positive impact on electric utility ratepayers as the electricity sector continues to achieve substantial emissions reductions. The EDUs play a significant role in not only reducing GHG emissions from the electricity sector, but in facilitating the statewide effort to electrify the transportation, industrial, and building sectors as well. To continue to support broad, economy-wide decarbonization, it is imperative that electricity rates and bills be affordable for all Californians and that the Program not exacerbate affordability challenges. We must acknowledge the impacts of increasing electricity rates on our communities, especially our low-income and priority communities, and we must acknowledge that increasing electricity rates and bills impact our middle-income communities, too. While Program proceeds do not offer a complete solution to what the CPUC has characterized as an "affordability crisis", the value of allocated allowances is an important part of the total package of programs, measures, and funding of the EDUs for achieving emissions reductions while protecting ratepayers. For these reasons, the JUG urges CARB to adhere to the principles called out above when considering any changes to the allowance allocations.

2031-2045 Budget - Post-2030 allowance budget scenarios

The JUG supports a well-designed 2031-2045 Cap-and-Trade Program to help achieve the state's decarbonization goals cost-effectively, while increasing market certainty and providing a positive signal to investors in clean technology. A post-2030 extension will require setting 2031-2045 allocations and revised allowance budgets. As indicated in the section above, the JUG believes EDU allocations at the highest possible level are needed to help support customer affordability while we pursue ambitious decarbonization efforts. While it is difficult to comment on post-2030 allowance budgets in the absence of the forthcoming economic modeling, the JUG believes that post-2030 allowance budgets should align with California's broader climate goals as articulated in CARB's Scoping Plan and the principles for EDU allocation stated above. In particular, we encourage a focus on cumulative allowance budgets that align with the Scoping Plan emissions trajectory. By including a clear signal in the current rulemaking amendments that the Program

will continue beyond 2030, post-post-2030 or 2025-45 allowance budget options could be constructed so that they meet the same cumulative emissions outcomes CARB has outlined while avoiding the unusual budget trajectory reflected in the current options that comes from squeezing 10 years of hypothetical reductions into only 6 years (2025-2030). The JUG members look forward to assessing the upcoming modeling results and providing additional feedback on how those numbers help inform the post-2030 program.

Imported electricity emissions accounting (EIM / EDAM)

The JUG includes members who participate in CAISO's Energy Imbalance Market (EIM) and are potential future participants in the Extended Day Ahead Market (EDAM). As such, we have several concerns relating to accurate GHG accounting of leakage from EIM and potential future EDAM market transactions and the impact of over-payments for GHG costs on California electricity consumers. Affordable electricity rates are essential to support electrification, which is a key strategy in the Scoping Plan to achieve California's emission reduction goals. Overpaying GHG costs in the wholesale electricity market will drive up the cost of electricity in California, thus making electrification less cost effective. The JUG is interested in discussing potential changes to both the CAISO GHG accounting design and the CARB regulations to address these concerns.

The first area of concern is the impact of wholesale market GHG costs on our customers and electricity rates. California EIM Entities are subject to two different GHG costs: 1) GHG cost embedded in the price paid for each MWh of market energy purchased, and 2) California Carbon Allowances (CC Allowances) withheld by CARB from the EDU allocation to cover the EIM Outstanding Emissions compliance obligation. The GHG cost to purchase electricity from the market is paid at the marginal GHG emissions rate, based on the generating resource at the top of the resource stack selected by the EIM optimization model for "deemed delivered" imports to California. GHG revenue collected in the market is distributed by CAISO to out-of-state generators who are assigned deemed delivered imports. However, not all out-of-state generating resources with deemed delivered imports have a compliance obligation under California's Cap-and-Trade Program. Even zero-GHG emitting resources receive a GHG payment from CAISO today. Some JUG members are concerned that paying for GHG at the marginal emission rate may result in over-payment and may not reflect the actual GHG emission compliance costs. In addition, if GHG emissions reported for the deemed delivered imports is less than CARB's default emission factor for unspecified imports, CARB withholds CC Allowances from California EIM Entities to cover the compliance obligation for EIM Outstanding Emissions. Those CC Allowances have value that could otherwise be invested in renewable energy and other utility programs that directly reduce GHG emissions or returned to customers in the form of a climate credit. The value of CC Allowances retired to cover EIM Outstanding Emissions does not benefit EDU customers.

Solving the root cause of the excess GHG costs may require fundamental changes to the market GHG accounting design. Previously the JUG asked CARB to consider changing the point of regulation (First Jurisdictional Deliverer or FJD) for EIM and EDAM market imports from the

out-of-state generator to the in-state electricity purchaser. This change would allow CAISO's market design to move away from attribution of imports to specific generating resources and calculate an overall GHG emissions rate for all generating resources that supported the electricity transfer into California. Calculating an overall GHG emissions rate would eliminate leakage and the need for the Outstanding Emissions calculation. The current point of regulation for EIM and EDAM market imports may prevent necessary improvements to the GHG accounting design. During the workshop, CARB staff indicated they are not considering making fundamental changes to the point of regulation. The JUG asks CARB to indicate in the Staff Report that it is willing to consider the electricity purchaser within California as the FJD for EIM and EDAM imports, as allowed under the WCI definition of First Jurisdictional Deliverer, if CAISO wishes to change its GHG accounting design in order to solve some of the issues associated with EIM and EDAM imports to California. CAISO's design is limited by CARB's FJD requirement, so indicating willingness to consider a different FJD would open the door to improving the market design.

With regards to the Outstanding Emissions calculation, it is unclear how the proposed changes described on slides 21 and 22 will affect the volume of Outstanding Emissions and the compliance obligation to be satisfied by withholding CC Allowances from the EDU allocation. The JUG asks CARB to estimate the potential change (increase/decrease) in the Outstanding Emissions compliance obligation, as well as ensure that EDUs are allocated sufficient CC Allowances to cover both the compliance obligation for their share of the Outstanding Emissions as well as the EDU's own compliance obligation. To limit the potential increase in Outstanding Emissions, the JUG recommends that the volume (MWh) of self-scheduled specified imports from generating resources under contract to California entities no longer be multiplied by the default emissions factor in the Outstanding Emissions calculation. In addition, the JUG asks CARB to consider using the actual GHG intensity for unspecified EIM and EDAM imports instead of CARB's default GHG emissions factor for unspecified electricity in the Outstanding Emissions calculation.

Update the Default Unspecified Emission Factor

Electricity imports, WEIM and EDAM accounting, the RPS Adjustment, CARB's proposals for out-of-state Energy Storage Systems (ESS), and a number of other programs and proceedings at other agencies, all rely or would rely on the default Unspecified Emission Factor (UEF) which has not been updated since 2010 and uses average emission factors from 2006-2008[9]. On average, the Western Electricity Coordinating Council (WECC) is cleaner today than it was in

[9] The default emission factor of 0.435 MT/MWh inclusive of 2% transmission losses and based on 2006-2008 marginal emission factors using the WCI Default Emission Factor Calculator created by CPUC staff was proposed in the 2010 MRR Initial Statement of Reasons (ISOR) at https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2010/ghg2010/ghgisor.pdf pg. 167; As noted in the 2010 MRR Final Statement of Reasons at https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2010/ghg2010/mrrfsor.pdf pg. 117, CARB removed the transmission loss factor and the default emission factor was changed to the equivalent of 0.428 MT/MWh in the final regulation.

2006-2008; however, it is not clear if the marginal emissions rate has increased or decreased since the UEF was set. If the WECC marginal rate is cleaner than 0.428 MT/MWh, the default UEF is over-estimating California's emissions inventory and causing higher compliance needs for imported electricity, thus leading to higher costs to electricity ratepayers.

The JUG recommends CARB review the default UEF for improved accuracy of imported emissions and make its findings available to stakeholders due to the implications for compliance costs to ratepayers and impacts to other agency programs.

Electricity imports from unlinked jurisdictions

The JUG appreciates that CARB staff recognizes the potential double counting of electricity import emissions from unlinked jurisdictions and agree that this issue needs to be addressed. Of the proposed solutions, the JUG prefers to utilize a Total Exemption solution where CARB recognizes that the other jurisdiction will take responsibility for the emissions from facilities in its jurisdiction and exempt those imported emissions from compliance with California's Cap-and-Trade program. The consideration of issuing free allowances based on a dynamic calculation of ever-changing compliance instrument prices is too complicated and its dynamic nature may require additional administrative effort to maintain transparency.

RPS Adjustment potential phase-out

During the October 5 workshop, CARB staff indicated they will evaluate the potential phase-out of the RPS Adjustment. The JUG does not support phasing out the RPS Adjustment which has been an important aspect of the Program that minimizes costs associated with imported clean energy in compliance with the state's RPS program.

In 2010, the intent of the RPS Adjustment was to recognize utilities' compliance with the rules governing the RPS program for electricity generated at an "eligible renewable energy resource" (October 2011 FSOR) prior to the implementation of the Mandatory Reporting Regulation (MRR) and Cap-and-Trade regulation. It also recognized that during the transition to a renewables-based generation grid, the firming and shaping of energy delivery has aided grid reliability by creating an option to firm up import schedules that smooth out the intermittent nature of renewable power.

The RPS Adjustment has ensured that utility ratepayers have not borne GHG costs associated with investments in firmed and shaped renewable energy in furtherance and in compliance with the state's renewable energy procurement mandates. This is especially important for resources that have long-term contracts or ownership interests where carbon costs were not accounted for when these investments were originally made. Even waiting until 2030 to remove the RPS adjustment would not address the concerns stated herein, as utilities will continue to have long term interests in out-of-state renewables associated with the RPS mandate that will continue well past 2030. The JUG believes that a phase-out of the RPS Adjustment, should there be one, must

be crafted to align with the RPS program mandates and recognize all investments in impacted resources made prior to elimination of this option.

The JUG acknowledges that CARB and the verifiers, may have difficulty in tracking energy trades associated with RPS Adjustment, and is open to working with CARB on proposing changes to the MRR to make it easier to track the flow of imported renewable energy. The JUG is also open to discussing options to accommodate long-term GHG reduction targets while not devaluing investments already made and providing market certainty.

We encourage CARB to continue supporting early action, utility investments in eligible renewable energy resources, and the transition to a zero carbon and renewable grid, all of which is highlighted by the need to keep electricity rates under control via the RPS Adjustment. Use of the RPS Adjustment has resulted in the avoidance of millions of dollars of needless expenditures associated with RPS procurement, with savings passed on to California's electricity consumers. The elimination of the RPS Adjustment is especially problematic for smaller entities where portfolio content category (PCC)-0 or "Count-in-full" resources are a large percentage of their overall RPS compliance portfolio (i.e., much larger than the bucket limits for PCC-2). Utilities have made, and will continue to make, significant investments in renewable energy procurement under the existing policy frameworks which include the RPS Adjustment as a supporting element of California's decarbonization goals through 2045. Should CARB phase out the RPS Adjustment by 2030, utility investments would be devalued, and create uncertainty for market participants in their evaluation of future renewable investments. The RPS Adjustment aligns with the suite of decarbonization policies existing across CARB and its sister agencies and for these reasons CARB should not eliminate the RPS adjustment.

<u>Conclusion</u>

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 while maintaining affordability and urges staff to take a holistic approach that analyzes the cumulative environmental and financial impacts of individual potential Cap-and-Trade changes.

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

///