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Submitted electronically

October 30, 2023

Ms. Rajinder Sahota
Deputy Executive Officer - Climate Change & Research
California Air Resources Board
1001 I Street
Sacramento, CA 95812

Re: ***Northern California Power Agency Comments on July 27 Cap-and-Trade Workshop***

Dear Ms. Sahota:

The Northern California Power Agency (NCPA)[1] appreciates the opportunity to provide these comments to the California Air Resources Board (CARB) on the October 5, 2023, workshop on further potential amendments to the Cap-and-Trade Program regulation.[2]

NCPA has been an active stakeholder at CARB throughout the implementation of Assembly Bill (AB) 32, including the initial rulemaking process for the cap-and-trade regulation and each subsequent update to the regulation. NCPA remains committed to working with CARB and stakeholders on further amendments to the cap-and-trade program regulation.[3]

I. Introduction

On August 17, 2023, NCPA submitted comments in response to the July 27 CARB workshop. As we noted in those comment, the allocation of allowances to electrical distribution utilities

1 NCPA's members are 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.

2 NCPA is a joint sponsor of the Joint Utility Group (JUG) comments supports the positions and concerns set forth therein.

3 NCPA is a California Joint Action Agency, established under Government Code §6500, et seq. in 1968 by a consortium of locally-owned electric utilities to make joint investments in energy resources that would ensure an affordable, reliable, and clean supply of electricity for customers in its member communities.[3] NCPA members include municipalities, a rural electric cooperative, and other publicly owned entities for which the public agency provides such services as the purchase, aggregation, scheduling, and management of electrical energy. NCPA operates and maintains a fleet of power plants that is among the cleanest in the nation, providing reliable and affordable electricity to more than 700,000 Californians.

(EDUs) was a critically important feature of the cap-and-trade program when the program was first adopted, and is today an integral part of the suite of tools used to benefit electricity ratepayers and fund important GHG reducing programs.[4] In those comments, NCPA stressed a fundamental issues stemming from that workshop:

- *On reducing allowance budgets, allow EDUs to retain all allocated allowances, to be used for the primary benefit of electricity customers, with potential program amendments to clarify prioritization of expenditures on low-income and priority customers within each utility's service territory; and*

NCPA does not reiterate those comments herein but continues to believe that the focus on allowance budget reductions between now and 2031 should not be on EDU allowance allocation.

II. Comments on Pre-Rulemaking Potential Amendments

CARB has asked the EDUs to consider what their role is in meeting the state's climate objectives, including the proposal to reduce the cap-and-trade program allowance budget. NCPA believes that the utilities play an important role in helping to meet the state's climate objectives as set forth in the 2022 Scoping Plan Update. That role is as a direct contact to electricity ratepayers. Rather than reduce the allowance budget for EDUs, CARB should honor the allocation commitment articulated in Table 9-4 through the end of 2030. The value of those allowances has indisputably been used for the benefit of electricity ratepayers. Investments have been made in programs and measures. As the state moves towards greater decarbonization and further electrification, electric utilities are being called upon to deliver deeper emissions reductions while also ensuring safe, reliable, and affordable electricity. The utilities will continue to play a vital and critical role in these efforts. The value of allocated allowances towards helping electric utilities meet all of those objectives cannot be overstated. Deep decarbonization and increased electrification, as well as the renewable portfolio standard program and myriad other mandates continue to put upward pressure on electricity rates. While the value of allocated allowances alone cannot mitigate those rate impacts, neither should changes in the cap-and-trade program result in increasing the ratepayer burden.

A. EDU Allowance Allocation Through 2030 Should be Retained to the Greatest Extent Possible

The October 5, 2023 Staff Presentation stated that all allowance pools are still under consideration to retire allowances. No decisions can be made until the modeling is completed and the scenarios are fully evaluated. However, in determining initial scenarios, NCPA

4 Northern California Power Agency Comments on July 27 Cap-and-Trade Workshop, dated August 17, 2023.

encourages CARB to apply the following principles when considering reduction to the EDU allocated allowances through 2030:

- Avoid rate increases associated with changes in allowance allocation.
- Maximize the direct benefit to electricity ratepayers.
- Encourage ongoing emissions reduction programs.
- Facilitate greater positive impacts for low-income and priority communities.

a. CARB Must Model Near- and Mid-Term Electricity Rate Impacts

While NCPA supports the state's increased climate ambitions, it is important to note that emissions reductions programs will come at a cost to the utilities, which will be passed on to electricity ratepayers. NCPA believes that CARB must accelerate the scenario modeling before any final determinations regarding allowance budgets can be made. It is important that the modeling used to support reductions in allowance budgets take into account these costs and the ensuing impacts on electricity rates. Scenario modeling must also factor in the uncertainty associated with many of the programs and technologies advanced in the Scoping Plan Update, which programs have uncertain costs.[5] When assessing the impacts of program changes on the electricity sector, care must be taken to avoid siloing costs such that the actual impact on electricity rates is blunted or obscured. Finally, NCPA urges CARB to ensure that the scenario modeling does not rely on long-term program benefits to negate or justify the immediate and short-term impacts of rate increases on California's residents and businesses. Californians will only be able to reap the long-term benefits of decarbonization if they can make it to the other side of the transition. For that to happen, especially in an increasingly electrified economy, electricity rates must be affordable for all Californians.

b. EDU Allocation and 60% RPS

It is understandable that some adjustment to the EDU allocation may be appropriate to reflect the increased stringency of the RPS program adopted in SB 100. CARB has asked that the EDU's consider their role in meeting the state's climate objectives, and the intended purpose of the allowances allocated to EDUs. NCPA has contemplated this question and believes that given the EDUs' direct relationship with their customers, the EDUs are uniquely situated to provide direct and targeted benefits to the state and its electricity customers.

If CARB determines that the EDU allowance allocation through to 2030 must be modified, NCPA urges CARB to use this modification to the EDU allocation as an opportunity to target investments within an EDU's service territory. In modifying EDU allocation to

[5] For example, carbon capture and sequestration (CCS) and carbon dioxide reduction (CDR) will be necessary to meet the state's climate goals, but the necessary technologies and infrastructure are not yet in place, rendering the timing of CCS and CDR utilization tenuous, at best. *See* 2022 Scoping Plan Update, December 2022, beginning on p 94.

reflect the 60% RPS from SB 100, rather than remove the value of the allowances associated with the modification from the EDUs, CARB could earmark that difference for EDUs to spend on specified uses. CARB is seeking ways to address how allowance value may be more targeted toward low-income and priority communities. This potential pool of allowance value may be a source of such funding. However, as CARB noted in 2018, not all utilities may be able to comply with a mandate that a minimum percentage of allocated allowances proceeds be spent on low-income and disadvantaged communities. "This is because not all utilities serve the same types of ratepayers or communities. Some utilities, for example the Port of Oakland, exclusively serve commercial or industrial ratepayers, and others have low-income communities but not disadvantaged communities in their service territories."[6] In lieu of a mandate, the value associated with the modified allowance allocation could be reserved for specific uses, depending on the most urgent needs of the utility's service territory, as determined by their governing body.

c. CARB Should Not Retire Allowances in the APCR

Of the pools of allowance under consdieration, NCPA encourages CARB not to retire allowances from the Allowance Price Containment Reserve (APCR) without modeling the potential impacts of doing so. Given the aggressive emissions reductions contemplated in the Scoping Plan Update and the pending tightening of the cap-and-trade program, the APCR can serve as a much-needed buffer in the event of allowance price volatility and tightening of the market.

d. Retaining EDU Allowance Allocation Provides Market Certainty

When the allowance allocation for EDUs was last updated, the budgets were set through 2030 based on the projected cap-and-trade program compliance costs. The allowance proceeds were directed to be spent for the benefit of electricity customers. The EDUs, through the CPUC or their local governing bodies, developed programs and measures that would be funded by allowance value based on the budgets in Table 9-4. While NCPA acknowledges that the allowance value was not a guaranteed "right," including the budget through 2030 provided certainty to the EDUs for program planning. Investments in targeted reductions and resource procurement were based on the anticipated allocation of allowances in Table 9-4. Changes to the allocation to reopen and recalculate Table 9-4 values prior to the end of 2030 would penalize those EDUs that invested in emissions reductions and early actions for the benefit of the state. Importantly, Table 9-4 and the anticipated allocation through 2030 also provided certainty to the markets. Making changes to the allowance budgets of the EDUs before the end of 2030 would undermine this stability and would also diminish the ability of the post-2030 allowance budget to create the same regulatory certainty moving forward.

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6 Cap-and-Trade Regulation, 2018 Final Statement of Reasons, p. 343.

e. IRP Planning Targets are Not Relevant to EDU Allowance Allocation

Adjustments to the EDU allowance allocation as a means by which to ensure compliance with IRP targets is misguided and unrelated. The current EDU allowance allocation is based on a calculation of the cap-and-trade program compliance costs, established out to 2030. The cap-and-trade program is not intended to be a primary source of emissions reductions. In fact, it is but one of the many programs that electric utilities must comply with to meet the state's climate policies and goals. EDU integrated resource plans are complex planning documents that address the myriad compliance requirements and the best resource procurement plans for the specific EDU. Those plans are not based on allowance allocation budgets, nor are the allowance allocation budgets part of the IRP planning targets. NCPA urges CARB not to conflate these two in its analysis of the potential extent to which the EDU allowance allocation should be adjusted.

B. The RPS Adjustment Should be Retained

As long as the RPS mandate is in place, the need for the RPS Adjustment remains. NCPA fully concurs with the JUG comments on retention of the RPS Adjustment and urges CARB not to phase out this much needed tool.

C. EDU Allocation Post-2030

NCPA believes that the upcoming amendments to the cap-and-trade program should address the stability of the program, providing clear market signals regarding program expectations through 2045. That means that the regulatory package must include an affirmative commitment to a post-2030 cap-and-trade program. The economic analysis and scenario studying must look wholistically at the long-term structure of the cap-and-trade program. However, at this time there are simply too many unknowns to accurately model scenarios for post-2031 given the uncertainties associated with things like CCS, CDR, green hydrogen, and increased transportation and building electrification, and therefore it is premature to definitively set the post-2030 EDU allocations. Attempting to set a post-2030 budget at this time could also be counter-productive to the markets, seeing as the uncertainties would undermine market stability and confidences.

When assessing post-2030 budgets and allocations, CARB should continue to recognize and prioritize the role that the EDUs have in helping to meet decarbonization and electrification goals statewide, and perhaps even more importantly, ensuring that the state's residents and businesses have safe and reliable electricity at affordable rates. In keeping with the EDU principles articulated above of avoiding rate increases associated with changes in allowance allocation, maximizing the direct benefit to electricity ratepayers, encouraging ongoing emissions reduction programs, and facilitating greater positive impacts for low-income and priority communities, and in alignment with the emissions reduction objectives set forth in the Scoping Plan, CARB should commit to reviewing to allowance allocation that look to the cumulative emissions reduction projections and focus on 48% reduction scenario. NCPA urges CARB to look beyond cap-and-trade program cost burden, and review allocation options based on the clean energy standards that the EDUs must comply with. Such an approach would also help to ensure that the changes to EDU load resulting from the increased electrification of all sectors of the economy would be covered. During the October 5 Workshop, staff raised several questions seeking to address the challenges associated with reevaluating the methodology used in Table 9-4; NCPA believes that further consideration of an approach that looks at the clean energy burden – rather than focusing on cap-and-trade program cost burden – would address those challenges. NCPA looks forward to working with CARB staff and other stakeholders to develop a methodology that facilitates the achievement of the state's clean energy goals while protecting electricity ratepayers to the greatest extent possible from adverse rate impacts.

III. Conclusion

NCPA appreciates the challenges CARB faces in designing program amendments to achieve the emissions reduction targets set forth in the 2022 Scoping Plan Update. Those challenges are compounded by the importance of electrification in the state's overall climate plan, and the role that electric utilities and electricity ratepayers will have in advancing that agenda. To that end, it is imperative that program changes take into account the impacts that electricity rate increases will have on California's households and businesses, and the direct relationship that the EDUs have with those households and businesses.

Please do not hesitate to contact the undersigned or Scott Tomashefsky at 916-781-4291 or scott.tomashefsky@ncpa.com if you have any questions regarding these comments.

Sincerely,

C. Susie Berlin

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Attorneys for the **Northern California Power Agency**