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RE: Comments on October 5, 2023, Cap-and-Trade Workshop

The California Municipal Utilities Association[1] (CMUA) appreciates the opportunity to provide these comments on the October 5, 2023, Cap-and-Trade workshop.

CMUA represents California's local publicly owned utilities (POUs), which are governed by locally elected boards and are accountable to the communities which they serve. CMUA's member agencies are committed to maintaining reliable and affordable electric service in a manner that supports the state's climate goals. Beyond providing affordable and reliable electric service, California's POUs are community benefit organizations, providing programs and services that support their local communities. In this capacity, California's POUs are partners in the efforts to meet the state's clean energy and greenhouse gas reduction goals.

Comments

Allowance Budget

In comments submitted on August 17, 2023, CMUA noted that POUs are best suited to apply allowance value for the benefit of POU customers and support clean energy facilities and programs.[2] CMUA understands that some adjustments in the number of allowances available for Cap-and-Trade program compliance may be needed to meet targets established in the 2022 Scoping Plan Update. However, CARB should strive to maintain the maximum number of current POU allowance allocations. POUs use allowance value for the benefit of POU customers and to further advance California's clean energy, electrification, and greenhouse gas reduction goals. CMUA does not

[1] 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.

[2] Comments on July 27, 2023, Cap-and-Trade Workshop, August 17, 2023, https://ww2.arb.ca.gov/system/files/webform/public_comments/5396/CMUA%20Cap-and-Trade%20Comments%208.17.2023.pdf.

support CARB's option to revise the 10-year electrical distribution utility (EDU) allowance allocation to align with more recent electric demand and supply for the reasons articulated in the Joint Utilities Group (JUG) comment letter dated October 26, 2023, and concurs with the JUG's recommendation to consider alternative options to the extent CARB seeks to update the EDU allowance allocation consistent with the current RPS mandate and SB 100.[3]

As CARB evaluates changes to the Cap-and-Trade program, including impacts to allowance allocations, CARB should consider the following principles:

Minimizing Impacts on Electricity Rates Encourages Electrification and Statewide GHG Reductions

Reductions in POU allowance allocations will directly impact ratepayers in California during a time when California is suffering from an electricity affordability crisis. By preserving the POU allowance allocation, CARB can help mitigate impacts of electricity rate or bill increases.

This is particularly important given that the electric sector has and will continue to be a critical source of emissions reductions in other sectors, including transportation, industry, and buildings. To encourage multi-industry electrification, California policymakers must support affordable and reliable electricity service. CMUA understands that the underlying causes of electricity rate and bill increases are manifold and that the Cap-and-Trade program cannot address all causes. However, it is paramount that changes to the Cap-and-Trade program do not make this affordability crisis worse. Any reduction in EDU allowance allocation will result in less funding for critical programs that will either need to be funded by rate increases or discontinued. As such, CMUA encourages CARB to look at reductions in allowance allocation for electric utilities as a last resort in updating the Cap-and-Trade regulation.

Allowance Value Supports Continued Community-based Emissions Reductions Programs

As required by the Cap-and-Trade regulation, California's POUs use allowance value to support clean energy programs and activities for the direct benefit of their customers. These include customer programs to reduce the cost of electric vehicle (EV) charging, build public EV charging infrastructure, and promote building electrification, among many others. If CARB reduces POU allowance allocations, many POUs could face the difficult choice of continuing to promote building and transportation electrification or maintaining affordable electric service. Reductions in these programs or increases in

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[3] Joint Utilities Group Comments on Potential Amendments to the Cap-and-Trade Regulation, October 26, 2023. https://ww2.arb.ca.gov/system/files/webform/public_comments/6686/JUG_comments_Cap%26Trade_Workshop_20231005.pdf.

rates present a particular challenge for low-income customers and customers in disadvantaged communities. As such, reducing POU allowance allocations creates the very real risk of working against California's clean energy goals.

Preserving Allowance Allocations Supports Clean Energy Investments Already Made by POUs.

California's POUs look to policy signals when making clean energy investments. Reducing allowance allocations established for 2021 – 2030 would eliminate the benefits of providing regulatory certainty and would have the effect of punishing POUs for taking early action to decarbonize their communities and electric grids. As originally stated by the Market Advisory Committee, fundamental to the allowance allocation method is that allowances should be distributed to advance the following conditions:[4]

- Reduces the cost of the program to consumers, especially low-income consumers, and
- Avoids perverse incentives that discourage or penalize investments in low-GHG technologies and fuels (including energy efficiency).

In April 2019, CARB established, in Table 9-4, *Annual Allowances Allocated to Each Electrical Distribution Utility from 2021 through 2030*.[5] By establishing and including in the Cap and Trade regulations the annual allocation for each electrical distribution utility (EDU) for the 10-year period from 2021 through 2030, CARB created a commitment to regulated EDUs that allowed them to take action to reduce emissions by building or contracting for clean generation, promoting energy efficiency programs, and promoting transportation and building electrification. The regulatory certainty established in Table 9-4 is key to enabling such clean energy actions. If CARB were to revise this allocation, less than three years into the commitment made in Table 9-4, it would effectively countermand two of the principles established by the Market Advisory Committee.[6] This would send the wrong signal to the regulated community, that one cannot rely on a regulatory commitment made in the Cap-and-Trade program.

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[4] Appendix H. Market Advisory Committee Recommendations, June 30, 2007. https://www.arb.ca.gov/regact/2010/capandtrade10/capv3apph.pdf.
[5] Article 5: California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms, April 2019. https://ww2.arb.ca.gov/rulemaking/2018/california-cap-greenhouse-gas-emissions-and-market-based-compliance-mechanisms.
[6] Appendix H. Market Advisory Committee Recommendations, June 30, 2007. https://www.arb.ca.gov/regact/2010/capandtrade10/capv3apph.pdf.

Consignment to Auction

CMUA has previously commented on earlier questions regarding mandatory consignment of POU allowances and wishes to reiterate its opposition here.[7] Requiring consignment of all POU allowances would needlessly increase customer costs without providing any additional GHG mitigation benefits, nor would it directly increase transparency. Although forced consignment does not increase market transparency, provide additional GHG mitigation benefits, or help implement market price signals, it would introduce significant financial risk for local public agencies.

As local and regional governmental entities, all POUs, regardless of size, would be exposed to material and potentially significant financial risks if they were required to consign *all* their allocated allowances and participate in auctions. The impact of such risks disproportionately affects some POUs more than others. Many POUs have limited staff to participate in the carbon market process and do not have the infrastructure or financial resources to mitigate financial exposure in the same way that the much larger IOUs can. CARB has previously acknowledged these core differences.[8] The same conditions that brought CARB to that conclusion remain valid today.

In addition to the increase in transaction costs, some POUs would be required to have significant capital available to participate in auctions, particularly if limitations on the use of proceeds prohibit them from using proceeds to meet their compliance obligations. This issue is compounded by substantial challenges larger POUs would face in securing a sufficient line of credit required to participate in the auction process, as no dedicated pool of funding is available for this purpose. POUs do not have shareholder funding to “backstop” their financial needs. These additional cost burdens (including mitigating the aforementioned financial risks associated with the consignment requirement) would negatively impact POU ratepayers. These additional cost burdens would be especially impactful on low income and priority communities - without achieving incremental GHG emissions reduction benefits. Moreover, the associated cost risks would harm low-income customers the most, whether in inland (warmer) regions or in coastal areas (more moderate temperatures, but higher cost of living). The financial risk for governmental entities will increase as the carbon market tightens and is more constrained with higher prices.

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[7] Comments on July 27, 2023, Cap-and-Trade Workshop, August 17, 2023, https://ww2.arb.ca.gov/system/files/webform/public_comments/5396/CMUA%20Cap-and-Trade%20Comments%208.17.2023.pdf.

[8] See pages 342 and 564 of the October 2011 Final Statement of Reasons for the Cap- and- Trade Regulations.

In short, requiring POUs to consign all allocated allowances to auction would lead to cost increases for POU customers without providing any additional GHG mitigation benefits or market transparency.

Use of Allowance Proceeds

The more discretion POUs have in the way in which allowance value is spent for the direct benefit of their electricity ratepayers, the greater the ability of those POUs to effectively target programs to low-income and priority communities. California's POUs serve varied communities, including low-income and disadvantaged populations. As essential public service providers, California's POUs are community partners, and are best able to develop rate structures and energy efficiency and clean energy programs to help meet the needs of low-income customers and disadvantaged communities. To best serve low-income and priority community needs, CARB should continue to allow POUs to have the flexibility to spend their allowance value on projects that reduce GHG emissions, while benefiting ratepayers and the communities in which they live. Section 95892(d)(3) provides a wide variety of uses for POU allowance values. CMUA respectfully requests that these eligible categories remain in the program.

The current regulatory framework allows POUs flexibility to determine how allowances and allowance value should be used, reflecting the tenet that local POUs are most capable of understanding the unique needs of their ratepayers. Because of this, further restrictions on allowance value spending could hinder, rather than help, effective and efficient delivery of valuable GHG reduction efforts.

Renewable Portfolio Standard Adjustment

CMUA supports the recommendations made by the Joint Utility Group regarding the phase-out of the Renewable Portfolio Standard (RPS) Adjustment.[9] The intent of the RPS Adjustment is to recognize early action by POUs. Key to this is the role that firmed and shaped resources play in maintaining grid reliability by creating an option to smooth out the intermittent nature of renewable power. The RPS Adjustment helps to reduce the cost borne by POU ratepayers associated with firmed and shaped resources which are an important part of California's renewable procurement requirements. The RPS Adjustment has helped to avoid millions of dollars of additional expenditures that would otherwise have been borne by POU customers. Eliminating the RPS Adjustment would prove particularly damaging to smaller POUs whose share of portfolio content category 0 resources, many of which were executed prior to 2010, constitute a larger share of their overall RPS portfolio.

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[9] Joint Utilities Group Comments on Potential Amendments to the Cap-and-Trade Regulation, October 26, 2023. https://ww2.arb.ca.gov/system/files/webform/public_comments/6686/JUG_comments_Cap%26Trade_Workshop_20231005.pdf.

Update the Default Emission Factor

CARB should update the Default Emission Factor (DEF).[10] Accounting in the Western Energy Imbalance Market (WEIM) and the Extended Day-Ahead Market (EDAM) rely on the DEF. However, the DEF has not been updated since it was established in 2011.[11] It is difficult to imagine that the marginal emissions rate of generating resources within the Western Electricity Coordinating Council (WECC) region has remained the same since 2011. If the WECC marginal emissions rate is cleaner than 0.428 metric tonnes of CO_2e per megawatt hour, then the DEF is overstating the compliance obligation and as a result is inappropriately raising costs of compliance for California electricity consumers. As such, CMUA encourages CARB to conduct the needed evaluation to update the DEF.

Conclusion

CMUA appreciates the opportunity to provide these comments in response to the October 5th workshop. In addition to these comments, CMUA supports the comments submitted by the Northern California Power Agency and the Southern California Public Power Authority. CMUA is also a signatory to the comment letter submitted by the Joint Utilities Group. CMUA looks forward to collaborating with CARB and other stakeholders in the Cap-and-Trade proceeding.

Respectfully submitted,

/s/

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[10] Cal. Code Regs., tit. 17, §§ 95111(b)(1), (h)(1).
[11] Amendments to the Regulation for the Mandatory Reporting of Greenhouse Gas Emissions, December 15, 2011. https://www.arb.ca.gov/regact/2010/ghg2010/mrrfro.pdf.