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**RE: Comments on November 16, 2023, Cap-and-Trade Workshop**

The California Municipal Utilities Association<sup>1</sup> (CMUA) appreciates the opportunity to provide these comments to the California Air Resources Board (CARB) on the November 16, 2023, Cap-and-Trade (Regulation or Program) workshop (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, POUs provide a range of community benefits, including programs and services that support their local communities. In this capacity, POUs are partners in the efforts to meet the state's clean energy and greenhouse gas (GHG) reduction goals.

As discussed in more detail below, the modeling results presented at the Workshop raise concerns about the cost-effectiveness of the future Program under various allowance removal scenarios. While CMUA supports a healthy Program beyond 2030 and recognizes that key anticipated abatement measures were not incorporated within CARB's initial modeling, the Workshop underscores the importance of performing complete modeling and carefully considering the implications of significant Program changes. Moreover, the modeling results highlighted the need to preserve those parts of the Program, such as POU allowance allocation and flexibility regarding allowance use, that are working well and providing tangible benefits.

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<sup>1</sup> 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.

## **Allowance and Price Modeling Warn Against Sweeping Changes to the Program**

Modeling the future of the Program is critically important to evaluate potential changes to the Program, and CMUA appreciates the efforts to model future allowance supply and price scenarios. Any changes to the Program must be well informed by robust, complete, and objective forecasts. This modeling represents a good first step toward understanding proposed changes.

While the model is not meant to be a price forecast, the model does serve as a projection of what the future could look like. Specifically, presenters indicated that just extending the Program through 2045 will likely drive allowance prices up significantly and eliminate any surplus allowances shortly after 2030. Even the “lower bound” Alternative 1, which keeps the 40% emissions reduction target for 2030 will lead to prices at the price ceiling in 2030 and 2035, only moderately decreasing in 2040; more aggressive Alternatives are pegged to the price ceiling throughout the study period.

While CARB has a variety of regulatory “levers” available, the model results indicate that CARB should take a surgical approach to modifying the Program. These initial results suggest that sweeping changes to the Program may result in allowance scarcity and prices that quickly surge through the APCR tiers, with allowances sustained at the price ceiling over the next decade.

Separate from the modeling results presented, there are also many sources of uncertainty both within and outside the model. For example, some measure of transportation and building electrification was included in the model.<sup>2</sup> However, current electrification projections are substantially uncertain and are impacted by rate affordability. To the extent that Program costs flow through to ratepayers without adequate protections, the modeled prices could discourage this transition.

While all modeling will have some inherent uncertainties, *known and identifiable* elements must be included in modeling scenarios. As discussed during the workshop, there is considerable uncertainty regarding abatement opportunities and the impact potential abatement may have on the demand for allowances, and thus allowance prices. We understand that neither carbon capture and storage (CCS) nor direct air capture, which may serve as abatement tools, were considered in the modeling. As described in the 2022 Scoping Plan Update, California views both CCS and direct air capture as critical to reaching the 48% emissions reductions target.<sup>3</sup> Additionally, the 2022 Scoping Plan Update called for substantial increases in the use and availability of renewable hydrogen before 2030,<sup>4</sup> but it is unclear what role hydrogen plays in this

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<sup>2</sup> November 16, 2023, Workshop at Slide 23 of 74.

<sup>3</sup> 2022 Scoping Plan for Achieving Carbon Neutrality, December 2022 (2022 SPU), at 84, 92 (requiring 20 MMTCO<sub>2</sub>e in 2030 and 100 MMTCO<sub>2</sub>e).

<sup>4</sup> 2022 SPU at 64 (need for rapid growth in clean energy including hydrogen), 88, 202 (projecting need for 10 GW of solar generation for producing hydrogen through electrolysis).

modeling and the magnitude of its impact. To support CARB's goal of aligning the Program with the 2022 Scoping Plan Update, technologies that are critical to achieving the necessary emissions reductions must be modeled to provide a more accurate picture of future scenarios.

Furthermore, there remains considerable uncertainty around the cost, timing and technological feasibility of CCS, direct air capture, and renewable hydrogen technologies. Given this uncertainty, CMUA is concerned that substantial Program changes may be made assuming the availability of abatement opportunities, without any current evidence that such opportunities will be technically or commercially achievable at sufficient scale on the necessary timelines. Even when these technologies are included in the model, CMUA believes the uncertainty around the viability of these technologies suggests that allowance reductions based on not-yet-available abatement could lead to a range of negative outcomes for the Program.

Absent greater clarity, CMUA urges CARB to take a least-regrets approach to allowance reductions and avoid the most aggressive allowance removal scenarios until more is learned about the cost and opportunity for early emissions reducing technologies to serve as a realistic abatement tools.

### **CMUA Supports Continuing the Program Beyond 2030**

CMUA is concerned that if the Program is extended to 2045 using the current modeled scenarios and key abatement measures do not materialize, this will result in an excessively tight allowance market with commensurately high prices. Despite this, we remain committed to the Program, with measured and informed updates. CMUA recognizes that the Program has the potential to offer the most cost-effective solution to achieve California's greenhouse gas (GHG) emissions targets. Continuing a robust and effective Program involves taking the steps necessary to keep the Program focused on ways to support the electricity sector's continued real and measurable GHG reductions. That means that CARB must thoughtfully and carefully assess any changes to the Program structure or allowance markets, ensure that any such changes are supported by a full panoply of modeling, and each change must be evaluated for their individual and collective impacts on the Program.

## **POU Allowance Allocation and Flexibility in Allowance Proceed Spending Are Important Abatement Tools**

While the Workshop focused on a specific set of abatement tools, CARB should be mindful that POU allowance allocation and flexibility in use of allowance value act as important sources of cost abatement. This abatement is provided in a variety of ways, including by depositing allowances for compliance to mitigate rate impacts associated with the Program and by monetizing allowances for targeted programs, renewable energy investments, and emission reducing projects.

In considering any changes to the Program, CARB must bear in mind the impact that electricity rates will have on statewide consumer electrification. Reductions in POU allowance allocations will directly impact ratepayers in California during a time when California is facing an electricity affordability crisis; these impacts are often felt most by the most vulnerable customers. Electrification can be a critical source of emissions reductions across sectors, but higher electricity prices will deter consumers from electrifying their vehicles, homes, and businesses. Preserving the POU allowance allocation helps avoid electricity rate or bill increases, while also encouraging electrification that is necessary to meet California's decarbonization goals. The modeling results discussed above suggest that, with Program extension, allowance removals, and absent cost-effective abatement, any reductions in allowance allocation will further push the allowance prices toward the ceiling. These high allowance prices threaten upward pressure on electricity rates, which in turn, threatens the pace of electrification that is critical to meet California's climate goals.

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. Many POUs also use allowance proceeds to invest in renewable, zero-emission projects that directly reduce emissions. POU flexibility in use of the allowance proceeds provides the opportunity to better manage customer impacts by putting that funding toward the most cost-effective forms of abatement and emissions reductions.

## **Conclusion**

CMUA appreciates the opportunity to provide these comments in response to the Workshop. 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 development of a cost-effective and technologically feasible Program design.

Respectfully submitted,

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