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May 10, 2018 | Submitted Electronically

Ms. Rajinder Sahota
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: SCPPA Comments on the April 26, 2018 Workshop to Discuss Possible Revisions to the Cap-and-Trade Regulation

Thank you for the opportunity to provide comments to the California Air Resources Board's (CARB or Board) to discuss the status and staff's thinking on potential amendments to the Cap-and-Trade Regulation pursuant to recently-enacted legislation and the July 2017 Board-adopted Resolution 17-21.

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. Our Members collectively serve electricity to 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.

Each SCPPA Member has an obligation to provide reliable power to their customer-owners – many of whom reside in disadvantaged communities – at affordable rates, while also complying with all applicable local, regional, state, and federal environmental and energy laws and regulations. Currently, SCPPA and our Members own, operate, or have contractually binding long-term procurement arrangements with 39 generation facilities including several natural gas-fired power projects and three transmission projects, generating power in California or importing from Arizona, New Mexico, Utah, Oregon, Washington, Nevada, Texas, and Wyoming. This is in addition to individual, Member-owned or contracted and operated transmission, generation, and natural gas projects throughout the Western United States. All are funded through municipally-backed financing mechanisms, which often come with terms that complicate our Members' abilities to quickly respond to substantial policy shifts that require near-term implementation.

These proposals directly impact electricity sector practices and market operations throughout the Western grid. Therefore, it is of the utmost importance that any proposed regulatory changes reflect well-structured, balanced, and lasting policies that function in concert to achieve the statutory goals via the most cost-effective means possible. SCPPA and its Members have actively participated in CARB's public processes and have met continually with staff to discuss the complex and interrelated issues associated with these regulatory packages. As stewards of public funding, we look forward to continuing to work with CARB staff toward a final Program design that can be feasibly implemented while achieving our shared interest in maximizing environmental and public health benefits for Californians at an affordable cost. Our comments are as follows:

SCPPA Strongly Disagrees with the Notion that Allowances Are "Overallocated"

While we understand that there is a directive under Assembly Bill 398 (E. Garcia, 2017), for CARB to "[e]valuate and address concerns related to overallocation in the state board's determination of the number of available allowances for years 2021 to 2030, inclusive, as appropriate" we emphasize here the importance of the "as appropriate" qualifier. SCPPA believes that it is too early in the market's existence to justify adjustments to the supply of allowances in the Program. Concurrently, **SCPPA <u>strongly supports</u> retaining the adopted post-2020 allowance allocations for the electricity sector.** SCPPA strongly supported the proposed **cost burden-based approach** for determining post-2020 allowance allocations in the 2015-17 rulemaking and continues to do so today.

Electrification of our Transportation, Port, and Building Sectors Must be Recognized in this Rulemaking

We welcome staff's continued recognition to assess potential upward adjustments to EDU allowance allocations to reflect such increases and appreciate that such adjustments must be based upon a demonstrable need. SCPPA is pleased that a dialogue is taking place to address the issue of Cap-and-Trade Program compliance implications associated with the definitive load, and the potential emissions shift to the electricity sector as California policy leaders aggressively push towards electrification of the transportation, port, and building sectors. In order to achieve the aggressive transportation electrification efforts proposed by the Governor[1], SCPPA Member utilities will need to continue their ongoing transportation electrification efforts and shift to developing a broader scope of aggressive electrification efforts today. As CARB is aware, the power supply portfolio of several SCPPA Member utilities still includes long-term, municipally-financed investments in higher GHG-intensive resources through 2027. As entities increase their electrification efforts, this is an interim period where emissions impacts can be expected. SCPPA recommends that staff evaluate establishing a dedicated set-aside of non-tradeable allowances for this purpose. Post-2027, all SCPPA Member entities will have divested early of these higher GHG-intensive resources, and allowance allocations can be adjusted accordingly. SCPPA looks forward to near-term discussions which provide *details* on allocation timing and funding mechanisms.

SCPPA continues to believe that while having "accurate and verifiable" data is important, that need must be balanced with practical implementation constraints associated with today's modern grid. We encourage CARB not to preclude use of estimation methodologies and look forward to CARB staff's continued engagement with stakeholders and other agency staff (in particular, those at the California Energy Commission) to identify possible practical solutions in an expedited manner.

SCPPA Supports the Current Allowance Banking Rules

SCPPA strongly supports the concept of a stable continuation of the Cap-and-Trade Program where current rules allow compliance entities to bank prior or current vintage allowances for use in future (post-2020) compliance periods. The ability to individually optimize allowance budgeting for compliance purposes will become increasingly more important as the overall Program cap of available allowances decreases and EDU allocations, in particular, are reduced. In addition to aiding in allowance market stability, this approach will help mitigate the risk of utility rate shocks and smooth the transition to a lower-emitting mix of generation resources. SCPPA appreciates this important clarification and welcomed CARB's confirmation for our Members and their ratepayers. Drastically changing important market-based components runs the risk of penalizing electric utilities that have made significant investments in "early action" projects that reduce emissions – and continue to do so today, such that the overall utility sector emissions are *already* significantly below 1990 emissions levels. Changing the already-adopted banking rules will additionally serve to destabilize the confidence in the program in the future.

Western Energy Imbalance Market

SCPPA appreciates the California Independent System Operator's ongoing efforts in developing a GHG tracking methodology through their stakeholder initiative process and would like to see it work through to its conclusion in July prior to CARB's engagement.

"Direct Environmental Benefits" of Offsets Should be Interpreted to Promote Beneficial Environmental Outcomes

We believe Staff's view of the offset limit methodology is consistent with statute. Likewise, we agree that "direct environmental benefits" (DEBS) could be broader than a reduction of in-state air pollutants, and therefore support staff's proposal to allow a path for additional offset projects be able to demonstrate that they produce a California DEBS. In addition, CARB should act deliberately in the way it interprets this provision so as to ensure that it does not fall astray of interstate commerce laws. For example, SCPPA has a refrigerator recycling program in which our Members participate. SCPPA Members can recycle their customers' old refrigerators and properly dispose of toxics and air pollutants in doing so. There is a definitive direct environmental benefit to the State, even though the end-of-life destruction of the gases takes place outside of the State's borders.

[1] Ex. Order B-48-18

Use of Allowance Proceeds

We understand that existing statute, via AB 32, broadly stipulates that the value associated with these allowances must be used for the benefit of our customers. SCPPA also understands and appreciates staff's desire to better clarify use of auction proceeds and allowance values. In this spirit, SCPPA supports reasonable guidelines that are also as *inclusive* as reasonably possible. As discussions continue, we would caution CARB from outlining a narrow set of parameters that "must" (instead of "may") be met as doing so could inadvertently exclude funding for projects and/or programs that would accomplish GHG emissions reduction goals envisioned by AB 32. SCPPA requests that the following categories also be included as "reasonable" uses of allowance value:

- Climate resiliency programs (*e.g.*, vegetation management and wildfire prevention activities)
- SF6 gas insulated switchgear reduction costs
- GHG reduction educational outreach programs within service areas
- GHG-related research (*e.g.*, EPRI studies that are subsequently used to formulate utility-scale programs)
- Rooftop solar incentives
- Energy efficiency programs or customer incentive programs
- Transportation electrification efforts (including rebates) and infrastructure development
- Purchase of renewable energy
- Research & Development
- Energy storage studies and installations
- Administrative costs associated with development of Integrated Resource Plans

SCPPA would be supportive of a "catch all" category, which allows utilities to innovate and develop new programs in the future, that includes broad parameters to bound these and other yet-unknown projects, programs, and needs.

SCPPA understands staff's desire to be able to quantify these emissions reductions. It is important to the Program to demonstrate that GHG reductions are occurring, but a rigorous Mandatory Reporting Regulation-style accounting of these emissions reductions would be unnecessary and potentially quite onerous. Qualitative demonstrations that GHG reductions are connected with the spent allowance values should be sufficient. Additionally, it makes sense to require this quantification to be submitted concurrently with the June 30th annual allowance value report, rather than have a separate reporting date.

SCPPA is ready to continue the discussions with CARB staff to find a mutually agreeable solution to address Staff's concerns.

CONCLUSION

SCPPA and our Members remain ready to constructively meet with CARB staff and other agencies to work towards mutually agreeable solutions that best advance the State's climate change goals in an affordable manner for California POU ratepayers.

Respectfully submitted,

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