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On behalf of California's publicly-owned utilities represented by the California Municipal Utilities Association, the Northern California Power Agency, and the Southern California Public Power Authority we are writing in strong support of CARB's decision not to re-visit consideration of requiring all POUs to consign *all* of their allocated allowances to auction as part of the 2018 Cap-and-Trade rulemaking revisions process. We particularly appreciate the time and consideration CARB has afforded to POU stakeholders to listen to and address our concerns on this proposal.

Please find enclosed more detailed information on the policy and practical limitations against requiring POUs to consign *all* of their allocated allowances in future Cap-and-Trade auctions. This would not be an inconsequential shift in policy and would have fundamentally altered the administrative implementation structure of many California POUs for a successful program – and where entities have already invested in long-term compliance strategies to reduce greenhouse gas emissions. We believe it is unnecessary to make this change since the primary policy goal – a reduction in GHG emissions as a direct result of a carbon price – can be and is being achieved via alternate methods and without a unilateral auction consignment mandate.

California's POUs strongly believe that the Cap-and-Trade Program is working well. Since its enactment, the electricity sector has made significant early investments to reduce GHG emissions and has already surpassed the AB 32 goal, having achieved approximately 20% emissions reductions below 1990 levels. We believe that this decision reflects an earnest and cooperative rulemaking effort that resolves our concerns on this matter. We look forward to working with you and your staff towards making continued improvements to the Program.

Respectfully submitted,

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March 2018 Publicly-Owned Utilities "Forced Consignment" White Paper

California's Publicly-Owned Utilities (POUs) strongly believe that the Cap-and-Trade Program is working well. Since its enactment, the electricity sector has made significant early investments to reduce GHG emissions and has already surpassed the AB 32 goal, having achieved approximately 20% emissions reductions below 1990 levels.

The POUs have developed this paper to highlight the policy and practical limitations against ***requiring*** POUs to consign *all* of their allocated allowances in future Cap-and-Trade auctions. This is not an inconsequential shift in policy and would fundamentally alter the administrative implementation structure of many California POUs for a successful program – and where entities have already invested in long-term compliance strategies to reduce greenhouse gas (GHG) emissions. This is true regardless of the size of the POU. ***We believe it is unnecessary to make this change since the primary policy goal – a reduction in GHG emissions as a direct result of a carbon price – can be and is being achieved via alternate methods and without a unilateral auction consignment mandate.***

We recognize the value of consistent programmatic implementation. However, just as there are differences in regional generation resources that define the impact of the regulations on a particular utility, the differences between POU and Investor Owned Utilities administration are material to this discussion. Although POUs and IOUs both provide electricity, the two utility types are fundamentally different in objectives, resource mix, financial structures, and governance. These differences are statutorily directed and have been historically acknowledged by CARB under the Program. These fundamental differences remain today. CARB has previously exercised its administrative discretion in this matter and should continue to do so in the 2018 rulemaking.

POU governing boards consist of locally-elected officials who must directly answer to their constituents regarding how, and at what cost, their fundamental services are provided. Moreover, many POUs are vertically-integrated, meaning that they often own and/or operate their generation and transmission assets to serve their customers. Because of this role, POUs have the direct programmatic compliance obligation for the assets, and a direct incentive to reduce those compliance obligations to the maximum extent possible. It is critical that POUs retain the ability to exercise local discretion in choosing future carbon cost prices in their supply portfolios and assign excess Cap-and-Trade revenues towards cost effective GHG mitigation programs; doing so allows POUs to optimally reduce their carbon footprints in a cost-effective manner for ratepayers. This self-governance must be allowed, so long as the practical outcomes are consistent with the broader statewide climate goals.

We certainly acknowledge that some POUs, particularly those within the California Independent System Operator footprint, periodically consign some of their excess allocated allowances to auction. However, this process is fundamentally different from the forced consignment of *all* allowances to auction; substantial differences in financial risk between these two paradigms must be recognized. Furthermore, the timing and strategic layering of the allowance consignment is unstandardized amongst each utility relative to their respective consumer rates.

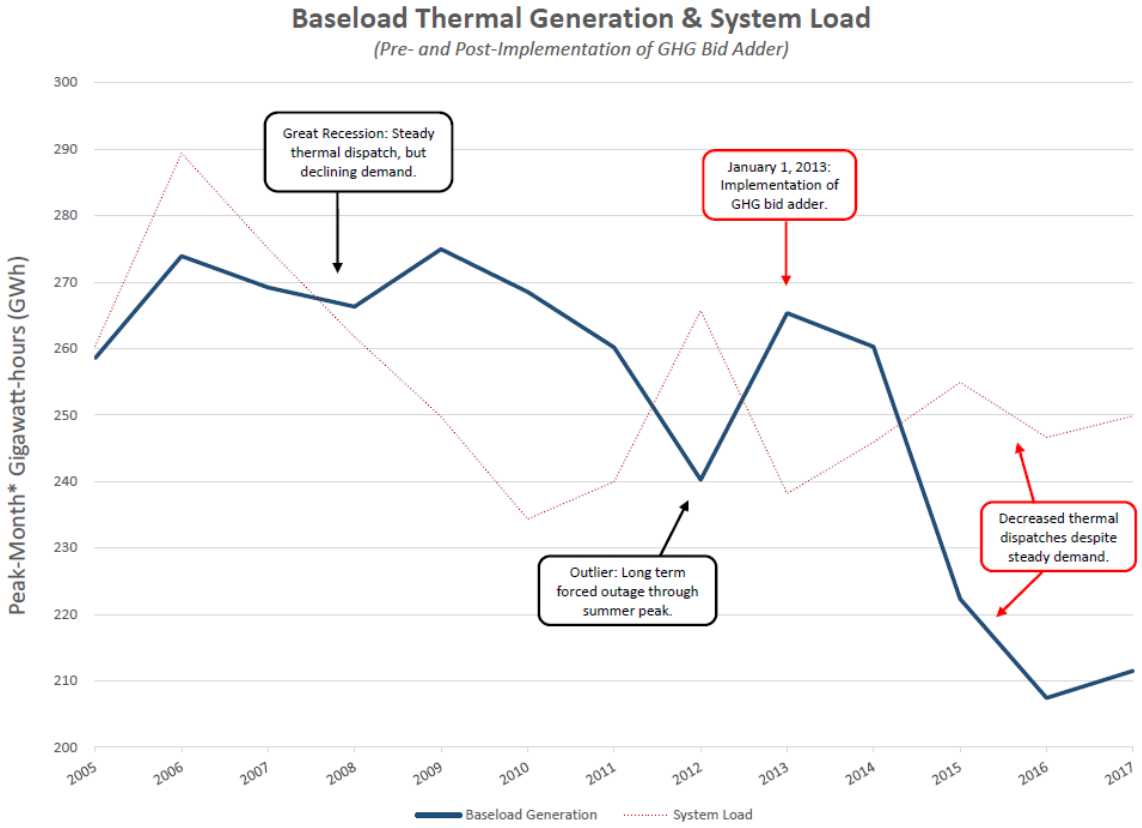
The Program has succeeded to-date in part due to its stringency, but also in part due to its flexibility in acknowledging operational constraints and impacts on various sectors of the economy. This paper is intended to show how such flexibility can still achieve equivalent results, and it is within this context that we frame the following arguments against requiring *all* POUs to consign *all* Cap-and-Trade Program allowances to auction.

I. POUs Can Implement Carbon Signals Without Forced Consignment of Allowances

A fundamental pillar of California's Climate Change mitigation policy is that behavior is impacted by price. This behavior certainly can occur at the consumer level, but it can also occur at a higher level in the procurement and/or distribution chain. Having a price on carbon, even if it is not a direct charge to consumers, can impact (and indeed *has* impacted) the dispatch of California POUs' power resources.

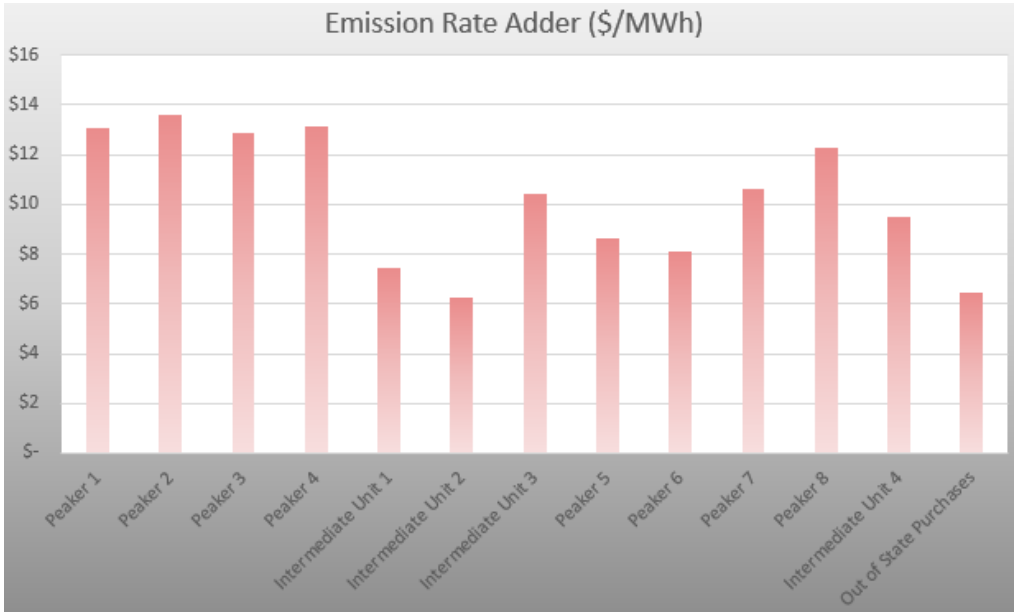
California Balancing Authorities all include a "GHG adder" in their economic resource dispatch calculations; indeed, every generating unit under POU control has such an adder. As a result, lower carbon resources are more likely to be dispatched because this places a cost premium on resources that have a greater GHG emissions intensity. Thus,

it is costlier to dispatch higher-emitting resources than it is to use lower-emitting ones to serve customer load. This chart presents a decade-long summary of one POU's baseload thermal generation dispatch before and after a "GHG adder" was implemented. It shows a dramatic inflection point:



Another California POU provided the following response and individual illustration.

Between daily and real-time dispatch decisions, as well and long-term planning decisions, we consider the net impacts of Cap-and-Trade compliance as a critical component of all decisions. For all time horizons, decisions consider all typical economics (unit efficiencies, unit characteristics, market prices, transmission, demand, etc.) as well as a calculated value for emissions costs. This emissions value is derived from the anticipated value that any compliance unit of allowances is worth based on allowance auctions and the secondary market. ***This value becomes a net adder to the economic dispatch decision process on all time horizons and encourages dispatch in such a manner that utilizes the allowance allocation as a carbon avoider mechanism.*** *Below is a chart that exemplifies the current emissions cost adders for each unit that essentially take the emission intensity rate multiplied to the assumed emission allowance value (assuming there are no reserve auctions).*



In addition to the economic dispatch decisions that are influenced by the emissions value, a Balancing Authority must adhere to WECC standards and meet all reliability requirements. Forced consignment would not only impact the dispatch decisions, but also further expand upon cost impacts as there are many cases when economics do not drive dispatch decisions due to reliability requirements. Forced consignments can also omit considerations for uncertainty in load forecast, cost and revenue forecasts and forced outages/natural events.

These results—real and measurable supply-side GHG reductions—must be recognized. They also must not be undervalued. We believe the potential reductions from supply-side procurement can be greater than those from demand-side conservation since electricity demand is relatively price-inelastic.

II. Forced Consignment of Allowances Introduces Significant Financial Risk Exposure for Government Entities

As local and regional governmental entities, POUs would be exposed to real, and sizable financial risks if they are required to consign *all* of 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 WCI carbon market process, and do not have the infrastructure or financial resources to mitigate financial exposure in the same way that the much larger, regulated IOUs can. CARB has in fact already acknowledged this in its October 2011 *Final Statement of Reasons* for the Cap-and-Trade Regulations[1]. The same conditions that brought CARB to that conclusion then remain valid today.

Additionally, due to historical long-term contracts with fossil-fueled generation, some POUs would be required to have significant capital available (including transaction costs) to participate in auctions, particularly if limitations on the use of proceeds prohibit them from using purchased allowances 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 also 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 POUs' ratepayers, 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. Although auction prices are still near the floor, as the program moves toward 2030, this is not expected to be the case. At that time, compliance is expected to become more difficult and more expensive, thus putting even more pressure on these entities and their rate base.

III. Long-term Energy Policy Goals Requires Reasonable Electricity Rates

Requiring *all* POUs to consign *all* of their allocated allowances to auction could result in significant increases to electricity rates at a time that State policy is pushing toward greater electrification of vehicles, buildings, and industrial processes. Higher electricity rates caused from consignment may make it even more difficult to achieve long-term GHG reduction goals, and may in fact dis-incentivize consumers and businesses from "going electric."

Our State's long-term policy goals will require substantial shifts in end-use consumer behavior, and this can only be achieved with reasonable electricity rates. Indeed, collective POU efforts to date have already demonstrated significant emissions reductions through existing policies as demonstrated in the following table:

Year	Total Emissions (metric tons CO2e)	Percent change relative to 2013
2013	32,055,395	--
2014	33,463,944	4.4%
2015	31,066,356	- 3.1%
2016	25,542,435	-20.3%

We acknowledge and appreciate that just as CARB must balance maintaining an affordable, market-based Cap-and-Trade program that is one important component of California's efforts towards achieving its aggressive climate change goals (and that continues to garner support from state and local policy leaders), POUs also need to ensure that critical market attributes – including affordable electricity – are not eroded either.

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

IV. Conclusion: POUs Oppose Policies That Would Require POUs to Consign All Allocated Allowances to Auction

We agree that carbon signals can be effective in incentivizing investment in lower-emitting resources. To this end, our utilities are already implementing carbon signals in their supply-side operations via inclusion of a GHG adder into their resource dispatch determinations.

The California POUs are convinced that requiring POUs to consign all allocated allowances to auction could lead to significant cost increases for POU customers. The recent passage of AB 398, to extend the Cap-and-Trade Program, hinged upon cost containment as a key policy principle. Given the importance of this principle and the existing ability of POUs to implement carbon signals that achieve GHG emissions reductions without consigning all allocated allowances or unnecessarily raising rates, we strongly discourage CARB from adopting consignment requirements that could have significant impacts and ramifications on consumer electricity rates.