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March 16, 2017 | Submitted Electronically

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

Re: SCPPA Comments on the February Cap-and-Trade Preliminary Discuss Draft and Cost-Containment Concept Paper

Thank you for the opportunity to provide comments to the California Air Resources Board's (CARB or Board) Preliminary Discussion Draft (PDD or Draft) and Cost Containment Concept Paper (Concept Paper) on potential changes to the post-2020 Cap-and-Trade Program ("the Program") 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 a duty to provide reliable power to their customers – many of whom reside in disadvantaged communities – at affordable rates, while also complying with all applicable local, regional, state, and federal environmental and energy policies. Currently, SCPPA and our Members own, operate, or have binding long-term procurement arrangements with 39 generation and natural gas 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 Supports Retention of the Current Rules for Consignment of POU Allowances

SCPPA and its Members have continually commented that the current system of voluntary consignment of allowances is appropriate. We are pleased to see this issue not advancing as part of staff's proposal. SCPPA is a signatory to a separate multi-POU letter on this issue which highlights the strong policy basis supporting staff's decision.

SCPPA Disagrees with the Concept that Allowances Are “Overallocated”

While we understand 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 history to justify adjustments to the supply of allowances in the Program. Similarly, **SCPPA strongly supports retaining the recently-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.

Use of Allowance Proceeds

SCPPA understands and appreciates staff’s desire to better clarify use of auction proceeds and allowance values. We also 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. In this spirit, SCPPA supports reasonable guidelines that are also as *inclusive* as possible. 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

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.

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

SCPPA remains concerned that CARB’s aggressive push toward electrification of the building and transportation sector is not yet addressed in the PDD. SCPPA is pleased that a dialogue has begun to address this issue of future allocations. We welcome staff’s continued recognition of the need and commitment to assess potential upward adjustments to EDU allowance allocations to reflect such increases, but SCPPA continues to believe that while having “accurate and verifiable” data is important, that it must be balanced with practical implementation constraints. We encourage CARB not to preclude use of estimation methodologies, as was previously done and again proposed in the Low Carbon Fuel Standard, and look forward to CARB staff’s 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 current rules which allow compliance entities to bank prior or current vintage allowances for use in future compliance periods. The ability to roll-over allowances will become increasingly more important as the overall Program cap of available allowances decreases and EDU allocations, in particular, are reduced. Staff’s clarification that this can continue will help mitigate the risk of utility rate shocks and smooth the transition to a lower-emitting mix of generation resources. SCPPA very much appreciates this important clarification and welcomed 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.

Western Energy Imbalance Market

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

Proposed Strategy for Determining the Price Ceiling and Containment Points

CARB Staff's proposal on its strategy for determining the price ceiling and containment points seems reasonable. We believe the two containment points, or "speed bumps," will provide helpful cost containment relief to protect against rapid escalations in customer rates. SCPPA supports placing these cost containment points located at 1/3 and 2/3rds between the determined floor and ceiling.

In determining the price ceiling, CARB must consider the direct impacts of potential market shifts on utility customers directly. If the price ceiling is not properly set, there could be large impacts to utility customer rates – which have more pronounced effects on low-income customers than on other customers. SCPPA looks forward to working with CARB in the months ahead as the details associated with these key policy points will be important.

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

We believe Staff's view of the offset limit methodology is consistent with statute. Likewise, we agree that "direct environmental benefits" could be broader than a reduction of in-state air pollutants, and therefore support staff's proposal to allow a path for additional offset project be able to demonstrate that they produce a California DEB. 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. To cite a specific 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.

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,



Tanya DeRivi
Director of Government Affairs