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April 28, 2017 | Submitted Electronically

Clerk of the Board
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: SCPPA Comments on the Proposed Second 15-Day Modifications for the Cap-and-Trade Program Regulations

Thank you for the opportunity to provide comments to the Air Resources Board (ARB or Board) on the second 15-day modifications to the regulations for the Cap-and-Trade Program (“the Program”). SCPPA thanks ARB staff for their diligence in working with stakeholders over this multi-year process. We particularly appreciate staff’s efforts to better understand our Members’ concerns – as representatives of their local communities, our Members’ recommendations consider cost, safety, and reliability impacts to their ratepayers at the head of the decision-making process.

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 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 regulations. Currently, SCPPA and our Members own, operate, or have binding long-term procurement arrangements with 38 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.

Support for Continuation of the Cap-and-Trade Program Post-2020

As SCPPA has indicated in past comments, we support implementation of the Cap-and-Trade Program post-2020.

The Program, as currently constructed, allows our Members to pass the value of allowance allocations directly to all of their customers, including those in disadvantaged communities. The continuation of a well-designed Cap-and-Trade Program allows our Member utilities to achieve continued progress in emissions reductions while minimizing ratepayer impacts. SCPPA asserts that extension of such a market-based greenhouse gas (GHG) program is the most cost-effective alternative for achieving our economy-wide GHG reduction goals.

Support for Staff’s Proposed Allowance Allocation Methodology for Electric Distribution Utilities (EDUs)

SCPPA and its Members support staff’s modified allowance allocation methodology for EDUs, as outlined in the second 15-day regulatory package. The recent revisions acknowledge that EDUs are subject to a number of existing and planned policy mandates that put utilities on a glide path to continuing our sector’s significant contributions to the state’s greenhouse gas reductions. A number of policies and events with substantial impacts on our Members’

procurement and operations have become effective or occurred in recent years. We anticipate that an increased focus on prescriptive procurement requirements for utilities may continue, particularly given the number of bills that exemplify this trend in the current legislative session. The majority of these policies are intended to drive further GHG emissions reductions (e.g. implementation of an increased Renewables Portfolio Standard). ARB staff's proposal appropriately adjusts the EDUs allowance allocations to better reflect the actual cost impacts that our customers may feel due to the tremendous policy efforts that we are undertaking as a state.

Suggested Policy Considerations for Future Rulemakings

In considering how the Cap-and-Trade Program might progress in future years, we would like to raise a few key issues to support ARB in its deliberations on the scope of future rulemakings. Broadly, SCPPA requests that ARB staff consider ways to further improve the ability of the Program to capture the real cost implications of the state's layered policies that reduce GHG emissions.

- **Cost Containment.** ARB staff should quickly evaluate possible options for implementing cost containment provisions. The ARB Board previously directed ARB staff to develop a cost containment mechanism as part of the Program. **SCPPA strongly urges ARB to promptly engage stakeholders in discussions on designing, testing, and implementing a credible and enforceable cost containment mechanism.** Establishing such a mechanism now, while the market is relatively stable, would establish the appropriate infrastructure and prove more effective than making reactionary policy changes if abatement costs escalate due to market fluctuations or a market crisis occurs. Having a clear and transparently-developed cost containment measure would provide regulated entities with the information and the confidence necessary to make policy decisions and prioritize investments in the appropriate areas.
- **POU Consignment of Allowances.** ARB staff have mentioned, both in public regulatory documents and in stakeholder meetings, that they are considering requiring POUs to consign their allowances to auction and requiring that the auction proceeds be used for specific purposes. The presented justification of this suggests that the change would help align treatment of investor-owned and publicly owned utilities. While we did not see this policy shift in the current set of proposed amendments, we anticipate that it may be re-visited in the future. **SCPPA and its Members strongly oppose any modifications to the regulations to require POUs to consign allowances to auction.** It is not reasonable to seek this change as a means to "align treatment" of entities that are neither structured nor governed the same way. As such, a requirement for POUs to consign allocated allowances to auction could introduce sizable financial risks and resource needs that cannot reasonably be addressed, would be administratively inefficient, and would disproportionately affect some POUs more than others.

POUs own and operate their generation facilities, and as such have direct compliance obligations for their assets under the Program. As many SCPPA Members are locked-in to long-term contracts for coal and natural gas resources, the number of allowances necessary to cover their compliance obligation could be substantial. If auctions are undersubscribed or oversubscribed, and POUs were required to consign their allowances, POUs would face substantial financial risks that may impede their ability to meet compliance obligations due to the financial uncertainties that result. POUs do not have shareholder funding to fall back on if there are auction challenges - any additional cost burdens incurred by POUs to manage the Cap & Trade Program, including mitigating the aforementioned financial risks associated with the consignment requirement, may negatively impact POUs' ratepayers while achieving no measurable incremental GHG reduction benefits.

SCPPA provided more detailed discussion on its concern with a potential requirement for POUs to consign allowances in its January 20, 2017, [comments](#) on the first 15-day amendments to the Program regulations.

- **Acknowledgement of Increased Load Due to Transportation Electrification.** We further encourage ARB to continue its discussions with the California Energy Commission regarding transportation electrification. ARB previously expressed that it is interested in using after-the-fact data to determine how it could potentially

supplement EDU allowance allocations. Instead, we suggest that the collaborative efforts between the ARB and Energy Commission establish a reasonable estimation methodology, which could be used to supplement any gaps in available data needed in ARB's analysis. **Ultimately, ARB should work with the Commission to establish a methodology for allocating allowances to address the increased load expected to result from forward-looking transportation electrification efforts.**

Conclusion

Thank you for your consideration of these comments. SCPPA and our Members look forward to continued discussions with ARB 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 ratepayers.

Respectfully submitted,



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