



October 15, 2018 | Submitted Electronically

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

Re: SCPPA Comments on the 45-day Regulatory Package for Proposed Changes to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms

Thank you for the opportunity to provide comments to the California Air Resources Board (CARB or Board) on potential changes to the existing Cap-and-Trade Program ("the Program") in response to the passage of Assembly Bill 398 (E. Garcia, 2017) and Board Resolution 17-21.

The Southern California Public Power Authority 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.

SCPPA and its Members have actively participated in CARB's public process and have consistently met with staff to discuss the complex and interrelated issues associated with this regulatory package. As stewards of public funding, we look forward to continuing to work with CARB staff on an updated Program design that can be feasibly implemented while achieving our shared interest in maximizing environmental and public health benefits for Californians. It is with this shared interest that we provide the following comments on the September 4, 2018 amendment package.

PROGRAM STABILITY

SCPPA commends CARB on its decision to not make radical changes to the existing and well-functioning Cap-and-Trade compliance instrument market. SCPPA strongly supports the concept of a stable continuation of the 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 utility allocations 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 in support of the recently signed Senate Bill 100 (de Leon, 2018).

By neither adjusting banking rules, nor adjusting the emissions budgets (the "cap"), CARB has shown the value of having predictable market signals. This approach enables SCPPA Members to comply with one of the world's most ambitious climate change programs while also continuing to manage operations and investments as efficiently and effectively as possible in the continuing effort to keep electricity rates affordable for our customer-owners. A stable, yet increasing, price on carbon is a foundational programmatic policy. SCPPA also appreciates CARB's thorough and thoughtful efforts to address price containment principles, discussed further below.

USE OF ALLOWANCE VALUE

SCPPA appreciates helpful clarifying edits to §95892 on “Allocation to Electrical Distribution Utilities for Protection of Electricity Ratepayers.” These include:

- Adding “*primary*” to (d)(3) to describe ratepayer benefits as the exclusive beneficiaries of the program. We believe this recognizes that investments in California’s GHG reduction projects and programs (e.g., transportation electrification initiatives) by publicly-owned utilities (POU) can provide secondary benefits to others who may not be POU ratepayers.
- Requiring electrical distribution utilities to “demonstrate GHG emissions reductions” in (d)(5) so as *not* to preclude actions that may not necessarily be *quantifiable*. SCPPA notes that not all Program investments to reduce GHG emissions can be fully quantified – particularly given the numerous different types of quality projects, programs, and measures that can achieve GHG emissions reductions or climate benefits. For example, customer education programs and some transportation-related initiatives may not necessarily result in a specific, quantifiable benefit. While we do not believe that a *specific* quantification methodology is necessary or appropriate, we also believe that it is important that any metric used to measure the *quantity of emissions reduction* from a program not form the basis for determining the *efficacy and overall quality of such a program*.
- Qualifying projects or activities that will reduce sulfur hexafluoride (SF₆) to the list of actions that can be taken using allocated allowance auction proceeds under “Other GHG Emissions Reduction Activities” in (d)(3)(C).
- Qualifying a more extensive list of projects, programs, or activities under energy efficiency and fuel-switching in (d)(3)(B). As California policy leaders aggressively push towards electrification of the transportation sector in particular, and in order to achieve the aggressive transportation electrification efforts proposed by Governor Brown, SCPPA Member utilities will need to continue their ongoing transportation (including port) electrification efforts and shift to developing an even broader scope of aggressive electrification efforts today (including buildings).
- Allowing for a reasonable 10-year deadline for expenditure of allocated allowances received in (d)(8).

CARB acknowledged at the beginning of the Program that it “does not have authority to appropriate funds. The use of revenue obtained from consignment of allowances is the responsibility of the California Public Utilities Commission (CPUC) for investor-owned utilities and the governing Boards of publicly owned utilities.”¹ SCPPA concurs that such decisions are fully under the authority of a POU’s local governing board and that existing regulations appropriately acknowledge this authority.

SCPPA continues to believe that §95892 can be further improved by allowing for a broader set of guidelines than is proposed. We understand that existing statute, via AB 32, *broadly* stipulates that the value associated with these allowances must be used for the (primary) benefit of our customer-owners. In this spirit, SCPPA supports reasonable guidelines that are also *inclusive* as reasonably possible. We would caution CARB from inadvertently excluding funding for projects and/or programs that would accomplish GHG emissions reduction goals envisioned by AB 32 as “reasonable” uses of allowance value these include: climate resiliency programs – specifically related to vegetation management and wildfire prevention activities; GHG emissions reduction educational outreach programs within utility service territories; GHG-related research to formulate utility-scale emissions reduction programs; and additional research, development, and demonstration projects and programs aimed at achieving the State’s newly-announced carbon neutral goals. To recognize this, SCPPA suggests providing a mechanism where CARB could consider and decide upon additional reasonable uses of allowance values on a case-by-case basis.

SCPPA recommends that CARB include within the regulation itself a formalized process by which utilities can obtain a decision on use of allowance values that are not explicitly included, or proposed to be included, in the regulation. We believe that all parties would benefit from the availability of being able to obtain a case-by-case determination with a degree of certainty. For example, most California utilities are undertaking additional efforts to reduce the threat of wildfires, harden the electric grid, and ensure greater climate resiliency – for which additional funding from Cap-and-Trade derived revenues could be justified as avoiding wildfires and reducing associated emissions. Outlining a standardized process through which to obtain an answer from CARB as to whether such expenditures are allowable would indeed be a helpful addition.

¹ Pages 65-66 of the October 2011 [Final Statement of Reasons](#) for the Cap-and-Trade Regulations.

SCPPA understands CARB 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. SCPPA continues to believe that while having accurate and verifiable data is important this need must also be balanced with practical implementation constraints associated with today's modern electric grid. While we appreciate staff's use of the term "estimating" in §95892(e)(4)(B), in requiring the estimation of GHG emissions reduction from each use of allocated allowance auction proceeds as described, we still believe CARB should not be overly prescriptive in implementation. As noted above and in prior comments, providing for a *qualitative* assessment on the estimated GHG emissions reduction, and where applicable, a quantitative assessment of GHG emissions reductions is more appropriate. Again, we do not believe that any specific metric used to measure the *quantity of emissions reduction* from a program should form the basis for determining the *efficacy and overall quality of such a program*.

SCPPA appreciates CARB's desire through §95892(e), on Reporting on the Use of Auction Proceeds, to better understand the disposition of *auction proceeds* spent or remaining to be spent, and how they benefit ratepayers. We would, however, caution CARB from utilizing a "one size fits all" approach in estimating the associated electricity GHG emissions factor to be used as is outlined in (B)(1) and (2). Not all utility portfolios are similar and, as a case in point, vehicle miles travelled on congested Southern California freeways and roadways could produce different savings than for vehicle miles travelled in other, less congested areas of the State. Electricity utilities should be provided a mechanism to utilize different approaches that are acceptable to CARB to demonstrate associated emissions savings.

COST CONTAINMENT PROVISIONS

We appreciate CARB's efforts to implement credible and enforceable cost containment mechanisms. Establishing such mechanisms now, while the market is stable, is indeed important and would prove more effective than making reactionary policy changes when abatement costs escalate prior to 2030. It would also provide regulated entities with the information and the confidence necessary to make policy decisions and prioritize investments in the appropriate areas – while both ensuring investments protect and better advantage people living in disadvantaged communities, and keep electricity rates affordable.

Cost containment "guard rails" also ensure politically sustainable allowance prices into the future, which can broaden support for aggressive and continued GHG emissions reduction programs for regulated entities and stakeholders alike. Attainment of our post-2020 climate change goals will require more effort across all sectors. Because CARB relies on third-party forecasts – which indicated cumulative shortages in the mid-2020's (having included Ontario) back in 2016, with estimated allowance prices then forecasted at \$53-70 under or around baseline future scenarios [Appendix D, Table 2], SCPPA is concerned that evolving market conditions (e.g., new carbon neutrality goal, evolving zero-emission vehicles mandate, EIM secondary emissions compliance, passage and implementation of SB 100, uncertainty of Federal CAFE standards) warrant even more certainty in setting a price ceiling that would abide by the Legislature's specific directive to avoid adverse economic impacts. The Legislature's concern for scenarios whereby prices in multiple auctions would exceed price containment levels, coupled with their additional concern about whether potential allowance prices would reach the price ceiling for multiple auctions, indicates that the Legislature intended CARB to set a robust and meaningful price ceiling with price containment points low enough to avoid a market in which allowance prices are rapidly increasing – especially in the out years of the Program.

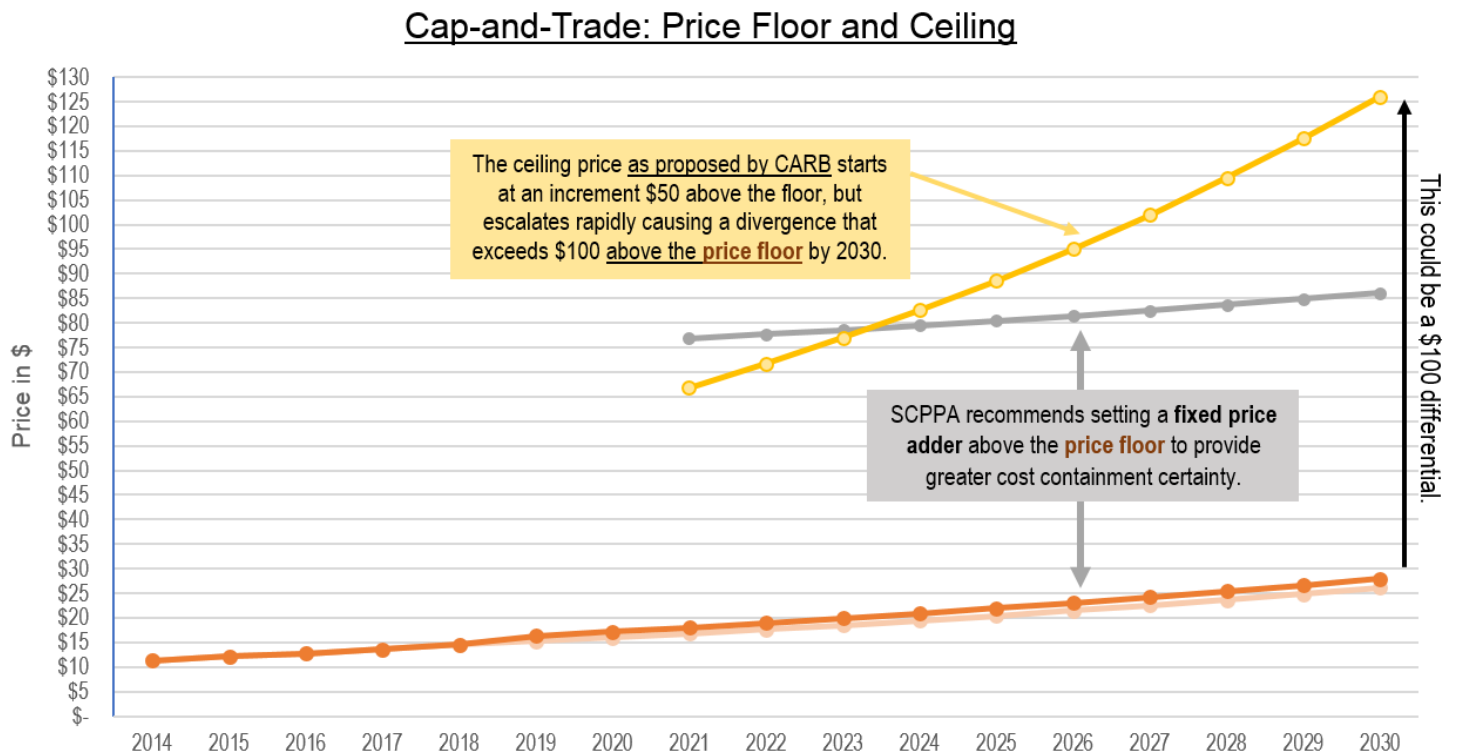
Ceiling Price

SCPPA strongly supports the inaugural installation of a price cap with a reasonable and predictable escalator. We recommend a price ceiling fixed at \$60 above the escalating floor price that is currently contained in §95915(f), beginning in 2021. We continue to believe that having a high degree of price certainty in the "out years" – when the "cap" continues to ratchet down while the "pool" of allowances also shrinks precipitously – would be an important component towards minimizing and being able to mitigate associated cost risks.

SCPPA believes that having a fixed price collar, as proposed here, would provide for a better cost containment mechanism to help ensure that programmatic costs can be affordable for low- and middle-income electricity customers across the State

into the future. This approach continues the foundational policy of a steadily increasing price on carbon, without a converging or diverging price floor/ceiling.

The following chart depicts SCPPA's concerns with the escalating price ceiling, as proposed, after the initial starting point in 2021. We believe such an escalation does not provide sufficient cost containment certainty in the critical out years of the Program. SCPPA's proposed fixed price collar tied to the escalating floor price instead actually starts at a higher value in 2021, but maintains cost-containment in the critical out-years of the Program:



Ceiling Price Units

SCPPA supports the eligibility criteria outlined in (b)(1) that would restrict price ceiling sales only to California covered entities (and opt-in covered entities) that carry a compliance obligation, and (b)(2) that would limit those entities from purchasing only the amount of compliance instruments needed to meet their compliance obligations. Both criteria are reasonable, and will help ensure affordable electricity prices for customers – particularly our low-income customers.

Reserve Tiers

SCPPA supports the creation of “Reserve Tiers” (or “speed bumps”) in §95913(h), “Sale of Allowances from the Allowance Price Containment Reserve,” as required by AB 398 to establish two price containment points below the price ceiling.

Offsets

SCPPA generally supports §95973, “Requirements for Offset Projects Using ARB Compliance Offset Protocols” as use of offsets are an important component of a necessary cost containment mechanism. SCPPA also appreciates staff’s proposed requirements to describe what constitutes “Direct Environmental Benefits (DEBs) in the State” in §95989(a)-(d) as required in how to implement DEBs requirements under AB 398. We appreciate some stakeholders’ desire to prioritize real and verifiable offset projects within the State of California and believe that both ensuring that offset projects are located within, or are mitigating GHG emissions within California do indeed provide direct environmental benefits.

CAISO ENERGY IMBALANCE MARKET (EIM) GHG ACCOUNTING METHODOLOGY

SCPPA appreciates the ability to comment on CARB's collaboration with the California Independent System Operator (CAISO) towards solidifying accounting of GHG emissions generated from both inside and outside of California as "EIM Outstanding Emissions" and "EIM Purchaser Emissions." Depending on availability, CARB's incorporation of MRR §95111(h)(2) and §95111(h)(3)(B) will likely be a heavy burden on SCPPA Members that have limited staff resources to comply with this requirement going forward. The amended regulation includes an additional requirement for data reported in 5-minute increments; whereas, currently this data is only required on an hourly basis. This change is significant, and could cost hundreds of thousands of dollars in new or enhanced system requirements to comply, not including the cost of independent verification. Compliance reporting is important and takes substantial time to complete, and providing data to this level of granularity exponentially complicates the task. This could require hiring additional staff, and may be especially difficult for smaller utilities, whose share of EIM Outstanding Emissions are likely diminutive, to expend significant resources to justify these investments.

SCPPA has reviewed the 45-day language and discussed this issue with CARB staff, our members, and other utilities. We understand this is a complex issue and subject to change during a subsequent 15-day comment period, but there are some fundamental components for which SCPPA recommends be a part of any final solution:

1. High accuracy on compliance obligation determinations;
 2. Enable future borrowing ability for compliance purposes;
 3. Provide POUs with control for retaining, designating, and retiring vintage allowances; and
 4. Minimize EDU reporting requirements by obtaining data directly from CAISO based upon settlement data.
- Higher compliance obligation accuracy could be achieved by better subdividing what the EIM contributes to, and that the rest come from specific generation sources or imports. This will better enable CARB to see what is in and out of the EIM. If the calculation to use total retail sales *without subdividing* is maintained, the outcome could disincentive procurement of clean energy resources because this approach does not recognize zero-emission energy sources serving California loads and could make paying a penalty a less expensive alternative.
 - Future borrowing would better enable EDUs to comply with, and account for, compliance in future years.
 - Enabling control for publicly-owned utilities (who do not have an auction consignment obligation) to retain, designate, and retire vintages would enable EDUs to better make use of vintages ahead of higher compliance periods with fewer allowance allocations.
 - Requiring annual reporting, as opposed to hourly or five-minute data for determining shares of EIM Outstanding Emissions, is a far more feasible ask for EDUs, especially smaller ones that are both budget- and staff-constrained. The settlement data CAISO already processes would likely provide the most accuracy while also reducing reporting burdens on EDUs.

Thank you for your time over the past year. SCPPA and our Members continue to seek forward progress on a variety of issues that have been raised over these months. We 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 ratepayers.

Respectfully submitted,



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