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April 15, 2016 | Submitted Electronically

Ms. Rajinder Sahota
California Air Resources Board
1001 I Street
Sacramento, CA 95184

RE: SCPPA Comments on March 29, 2016 Public Workshop Regarding Setting Post-2020 Allowance Allocations.

Thank you for the opportunity to provide these comments on the March 29, 2016 workshop and the ARB staff presentations. The primary focus of the workshop was to solicit comments on setting post-2020 emission caps and allowance allocations. This letter focuses on proposals related to allowance allocation and allowance value. A separate comment letter will address both the cost-containment and cap setting proposals.

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. Each Member owns and operates a publicly owned electric utility governed by a board of elected local officials. Our Members collectively serve nearly five million people in Southern California.

SCPPA and its Members support the Air Resources Board's (ARB) efforts to clarify the GHG regulatory regime as it is extended to address the post-2020 timeframe. The March 29th workshop presented both minor and major changes to the existing Cap and Trade Regulation (Regulation). Many of the more significant proposals were presented at a high level that left SCPPA still with many questions and generated need for additional comments. SCPPA's comments reflect our best efforts to comment on the proposals directly and to address the issues specifically highlighted by the ARB staff, but the scope and implications of these proposals require additional time, discussion and analysis. Since ARB has not released important documents and analysis, including the anticipated industry leakage study, the comments below reflect an initial review. SCPPA strongly recommends more detailed discussions with stakeholders and looks forward to continued focus by ARB staff and management on the impact of these proposals and any policy alternatives.

<u>Process Concerns</u>

SCPPA is concerned with ARB's fragmentary approach to presenting proposed amendments that represent significant policy changes to the existing Regulation. The ARB has been holding a series of workshops focusing on specific cap-and-trade issues, with separate comments deadlines lagging. In order to submit complete and thorough comments, a better understanding of the complete picture of the studies and information not yet shared is required. Additionally, staff has stated that additional subsequent rulemakings will be required to complete this process.

The implications of these policy decisions cannot be underestimated, nor can they be made independent from one another. For example, staff is asking stakeholders to comment on the methodology shift related to post-2020 industrial allocations and its impacts before pertinent information like the long-awaited Leakage Report is released. Likewise a subsequent rulemaking is required to determine the newly proposed electricity-included Product-Based Benchmarks for industry customers. These unknowns directly impact SCPPA Members and interests of their customers and ratepayers. Apparently, the ARB is asking stakeholders to comment on the effects of its policy decisions before those stakeholders know what those effects will be. It is critically important to the success of the program that staff as well as stakeholders have the chance to examine the complete picture of what these policy changes will look like before any final decisions are made. Rushing to a 45-day package, with the promise of 15-day changes, is neither fair, nor acceptable, nor objective process for such an important and far-reaching rulemaking. We respectfully request that ARB facilitate more robust and systematic stakeholder engagement opportunities prior to the release of the 45-day language. SCPPA members, and we believe other stakeholders, fear that once this regulatory milestone has passed, ARB's ability to take-up critical stakeholder recommendations via 15-day revisions will be limited and thus may not allow for adequate consideration of alternatives.

Staff Proposal for Post-2020 Allowance Allocation

Industrial Allocation

SCPPA requests additional time to comment on the proposal to transfer allowances from the Electric Distribution Utilities to industry customers to allow the ARB to release the leakage study and benchmarking studies that will inform evaluation of the policy changes.

This proposal is problematic on a number of fronts, primarily because while allowances may be transferred to industry customers, the compliance obligation will remain with the First Deliverer of electricity to the California grid—the Load Serving Entities (LSE). This is a fundamental change in policy affecting electric utilities, including Publicly Owned Utilities (POUs). POUs will still need to meet the compliance obligation for GHG emissions but they will now have fewer allowances with which to do so. POUs would also need to reconcile emissions reporting data with covered industrial facilities, though currently, there is no compliance instrument in place for the industrial sector to report emissions from its electricity usage. This change is being presented by ARB only weeks before staff proposes to issue a 45-day package. It was noted in the workshop that the original rulemaking took 3 years; the exceptionally condensed timeline for this process does not allow for adequate stakeholder analysis and planning.

This policy would require POUs to enter the market place, buy more allowances, and then pass this additional expense on to ratepayers and customers through an increase in rates. This negates the overall purpose of the allowance allocation to POUs, which is to reduce the sudden increase in cost impacts to ratepayers. SCPPA appreciates that the ARB is attempting to compel public utilities to develop a concrete price signal for the cost of carbon for its customers so that they will reduce their electricity usage. However, SCPPA's Members, as POUs, do not operate like Investor Owned Utilities (IOUs). POU rate structures may not be set up for this type of requirement and are subject to the realities of local citizen and business owner control of the utility, and thus complex and political rate-setting processes which can take several years to complete because true POU owners - the ratepayers - have direct say and influence in the process. This includes potential issues with Proposition 26 requirements; as applied here, POUs would be forced to pass any resulting rate impacts solely to industrial customers in their service area to ensure that other customers would not be unfairly impacted by higher rates while only industrial customers enjoyed the benefits.

ARB staff has not explained why the existing system for POU allocations cannot, or should not, continue or be modified. SCPPA Members have made significant investments into reducing their GHG emissions profile, while at the same time protecting their ratepayers. This is no small achievement. What ARB is currently proposing is a wholesale change in the process, which will require a complete overhaul of all POU rates and administrative oversight of this program. SCPPA requests that ARB provide additional information, analysis or supporting arguments as to why this change is necessary.

It is believed that staff is concerned about a hidden price signal within POU territories. SCPPA appreciates this concern, but does not believe that directly re-allocating electricity allowances to large industry is the way to achieve sunshine on this price signal. Additionally, providing allowances based on a statewide industrial benchmark with a default emissions factor does not encourage reduced electricity usage in all areas of the state, and in fact, could penalize industry located in some POU areas if the industrial base within their service territory does not meet average statewide performance metrics such as those POUs that do not have long-term contracts with large-hydro generation or other low emissions resources.

In addition to the proposed policy issues highlighted above, the resulting change will unavoidably bring substantial administrative burdens. For example, not all utilities have Advanced Metering Infrastructure (AMI) to collect hourly electricity usage data for their industrial customers. Those that do have AMI would still have the sizeable burden of coordinating industrial facility specific data with the customer to ensure that accurate data is being reported. The change also adds costs and uncertainties, such as the need to very accurately predict the future cost of compliance with the program - yet the cost containment proposals are still just that. SCPPA Members' rates are a cost recovery mechanism only, and do not result in profit for the utilities. Unlike IOUs, SCPPA Members cannot simply pay fewer dividends to their shareholders because Members need allowances to cover the emissions associated with electric generation from their resources and would not generally receive auction proceeds to pass on. SCPPA needs to calculate exactly what the cost will be to purchase the additional allowances necessary to cover the compliance burden and put this number into its long-term rate structures. It should be noted that within SCPPA Member service territories that there is a very high proportion of low-income ratepayers that could be significantly impacted by rate increases to cover these new compliance costs. At this time however, there is not enough information available or guidance from ARB for SCPPA to complete this analysis.

Use of Allowance Value

During the workshop, staff noted that they would be making clarifying amendments to the allocated allowance value provisions. The slides state that POUs would be required to return the allocated allowance value in a non-volumetric manner; however, the language on the slide as well as statements made during the workshop and the question and answer period do not clearly indicate whether this provision would apply to all allocated allowance value or only to the revenue that a POU receives from the consignment of allocated allowances. Application of this proposal to all allocated allowance value would have a paramount impact on POUs which are vertically integrated in structure and own substantially more generation assets than IOUs. Because it is unclear from the workshop which approach staff is proposing and because this proposal has the potential to significantly impact POUs, it is requested that the proposed clarification specifically indicate that is only applies to revenue from allowances that are consigned in auctions.

Further, the slides were unclear as to how the listed allowed uses would be applied. Specifically, SCPPA requests that the proposal be clarified to state that the allowed non-volumetric return of the value be applicable to the direct return of revenue. If a POU ultimately has excess allowances and chooses to consign a portion, then they should be able to have the choice to develop a program to return the allowance value on a non-volumetric basis **or** fund GHG emission reduction programs such as energy efficiency and/or clean energy projects in lieu of a credit rebate system).

Additional Allowances for Electrification

SCPPA is supportive of staff's proposal to distribute additional allocations based on evidence of increased electrification. Staff specifically asked for comment related to data sources and methodologies that should be used. SCPPA and its Members are continuing to assess possible methodologies that would appropriately satisfy ARB's intent to verify the quantifications with evidence while avoiding unnecessarily cumbersome processes for EDUs. We look forward to providing more substantive comment on this in the future. Though, SCPPA would like additional information on this proposal as it relates to timing and impact on other sectors if additional allowances are provided to the EDUs.

Thank you for your time and consideration. SCPPA not only welcomes additional opportunities for continued discussion on these issues, but strongly encourages staff to better explain the need for such changes. The implications of staff's proposals in the March 29th workshop will impact millions of ratepayers for the next decade. SCPPA strongly encourages ARB to provide stakeholders more than a few weeks to digest and comment on these proposals. We have a goal to ensure that the regulations ultimately put forth effective and fair regulatory programs.

Respectfully submitted,

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