



October 22, 2018

Richard Corey  
Executive Officer  
California Air Resources Board  
1001 I Street  
Sacramento, CA 95812-2828

**RE: Joint Utility Group Comments on 45-day Cap-and-Trade Proposed Regulation Order**

Dear Mr. Corey,

The California Joint Utility Group (“JUG”)<sup>1</sup> respectfully submits this letter, on behalf of customer interests, to the California Air Resources Board (“CARB”) regarding the 45-day Cap-and-Trade Proposed Regulation Order posted Sept 4, 2018. The aim of JUG recommendations during this regulatory rulemaking has been to mitigate the bill impacts of these proposed changes on customers, while ensuring the state’s program retains its environmental integrity. The JUG appreciates staff availability for continued dialogue on the implementation of AB 398, and subsequent changes to the Cap-and-Trade Program.

**The Joint Utility Group continues our strong support for a well-designed Cap-and-Trade system and view it as an essential and flexible component of the state’s greenhouse gas (GHG) reduction efforts.** Cap-and-Trade establishes a firm GHG emissions reduction target and provides flexibility to foster innovative GHG emission reductions that minimize costs to California consumers and businesses.

**JUG Members support CARB’s current approach to socializing the costs of Energy Imbalance Market (EIM) outstanding emissions, and has concerns about the 45-day language. If CARB moves forward with this proposal, we call for a simple and transparent method for assessing individual compliance obligations and optionality in how a utility retires compliance instruments.** The 45-day proposal, in combination with CAISO’s proposed methodology contained in their August 25, 2018 tariff filing at the Federal Energy Regulatory Commission, would complicate EIM market participation and present an obstacle for further EIM participation for entities within California. It’s not

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<sup>1</sup> Southern California Edison, California Municipal Utilities Association, Modesto Irrigation District, Northern California Power Agency, Southern California Public Power Authority, San Diego Gas and Electric, Los Angeles Department of Water and Power, Golden State Power Cooperative, Pacific Gas and Electric Company, Turlock Irrigation District, Sacramento Municipal Utility District, M-S-R Public Power Agency.

just utilities saying that. Other EIM participants are increasingly expressing concerns. The issues identified by stakeholders include the concern that California EIM Purchasers would be exposed to costs they cannot manage since costs for allowances to cover outstanding emissions will be determined after the market runs. Additionally, the combination of CAISO's treatment of allowances in the EIM and ARB's proposed treatment of allowances for outstanding emissions may over-collect the costs for allowances to cover total emissions from imports. We support CARB's current method of accounting for EIM outstanding emissions by removing an equivalent number of allowances from the program-wide allowance budget, and still believe it is better for CARB to continue that approach, rather than asking California ratepayers of those entities that participate in the CAISO's Real Time and EIM to now shoulder the costs of emissions beyond our state borders. This misalignment of policy becomes particularly evident when it is recognized that those same California entities will have no control over the actions that may result in outstanding emissions. We further believe that sufficient allowances remain unallocated from the overall budget to easily continue the current method.

Further, CARB should contrast any EIM outstanding emissions against the GHG benefits of California's renewable exports in the EIM. We think no matter what the solution, CARB should make it clear to the public that EIM produces significant environmental benefits – and those benefits to the atmosphere are just as real as the secondary emissions effect. We know CARB has suggested opposition to counting those environmental benefits, but JUG believes it is worth revisiting in this context.

If CARB continues down the path of assessing compliance obligations for individual EIM purchasers, we think that those compliance obligations should be consistent with an entity's annual EIM purchases, not their overall share of total retail sales among EIM participating utilities. And if a compliance obligation is assigned, a utility should have the option of electing whether they wish to retire compliance instruments to satisfy that obligation on their own, or if they would rather have CARB retire allowances on their behalf. This optionality is critical because investor-owned utilities and publicly-owned utilities have different regulatory guidelines for how they can retire compliance instruments.

While it is out of the scope of this rulemaking, we believe CARB should also consider allocating additional allowances to EDUs to cover the costs of this newly-discovered compliance obligation, as well as updating the unspecified emissions factor. We believe both of those changes would lessen the impact of CARB's proposal on our customers – who alongside their utilities have no control over the emissions being debated here.

**JUG Members support a price range between the Ceiling and Auction Floor that allows for cost-effective reductions on the low end – and a politically sustainable program at its height.** The utilities are interested in seeing final values for the ceiling that balance the need to incentivize GHG reductions while maintaining a politically viable program that is in line with the intent of AB 398. We think there are a couple ways to design a price ceiling that achieves those goals, such as a simple \$60 real price adder to the floor price starting in 2021, and commensurate changes to the two price containment points. That \$60 adder is similar to how the single price tier is determined today. Such an approach meets the criteria established in AB 398 for determining the price ceiling and would avoid divergence or convergence between the Auction Floor and the Ceiling. On the other end of the potential price range, JUG members believe CARB's existing schedule for the escalating floor price is a reasonable path forward that will balance the need to send a meaningful GHG price throughout our economy, even in times of low demand, against the need to shield our customers from artificially inflated costs that are unnecessary to achieve the intended reductions.

**JUG Members support the program-wide annual allowance budgets for the 2021-2030 period.** The Joint Utilities agree with CARB Staff’s evaluation that the “currently established caps would constrain GHG emissions from 2013 through 2030” and “support a steadily increasing carbon price signal”.<sup>2</sup> Existing design features, such as the auction reserve price, declining post-2020 caps, and the transfer of unsold allowances to the Reserve after two years, are sufficient to ensure a steadily increasing carbon price signal.

**JUG Members support CARB’s approach to offsets in this regulatory package, and believe it is a reasonable approach to implementing the provisions of AB 398.** This regulatory package again highlights some of the major benefits of the offset program – cost containment and creation of real reductions outside of capped sectors. JUG and many others agree with these staff positions. We specifically support CARB’s proposals on the following offset-related issues:

- Definition of Direct Environmental Benefit (DEB) and Ceiling Price Unit
- The construction of § 95854(b) – Quantitative Usage Limit on Designated Compliance Instruments – Including Offset Credits
- Determination that in-state projects using CARB-approved offset protocols meet the DEBS definition
- Inclusion of a pathway for out-of-state offsets to demonstrate Direct Environmental Benefits to California

**Member companies of the Joint Utility Group appreciate the continued dialogue with CARB staff and management.** Thank you for your time, and for your careful consideration of these issues.

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<sup>2</sup> Staff Report Attachment D: AB 398: Evaluation of Allowance Budgets 2021 through 2030