

November 29, 2018

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

Dear Ms. Sahota:

Subject: Los Angeles Department of Water and Power's Comments on California
Air Resources Board's Proposed 15-day Modifications to the California
Greenhouse Gas Cap-and-Trade Regulations Released on November 15, 2018

The Los Angeles Department of Water and Power (LADWP) appreciates the opportunity to provide comments to the California Air Resources Board (ARB) on the Proposed 15-day Modifications to the California Greenhouse Gas Cap-and-Trade Regulations that were released on November 15, 2018.¹

In submitting these comments, LADWP reaffirms its strong support of the Assembly Bill 32 (AB 32) and Senate Bill 32 (SB 32) goals of expeditiously achieving substantial greenhouse gas (GHG) emission reductions in a cost-effective manner that protects ratepayers and minimizes impacts to low-income communities.

I. Use of Allowance Value

LADWP supports ARB's proposal to explicitly allow the use of allocated allowance proceeds on educational programs that promote and support efforts to reduce GHG emissions. LADWP further agrees with ARB's proposal to limit spending on education programs to the greater of \$100,000 or one percent of total annual expenditures by an Electric Distribution Utility (EDU). Such a spending limitation is reasonable given that although these educational programs serve a valuable role for promoting GHG reductions and benefitting ratepayers, it is difficult to quantify the benefits of these programs.

In addition, LADWP supports ARB's proposal to adopt new regulatory text that explicitly allows the use of allocated allowance proceeds to reduce emissions of hydrofluorocarbons (HFCs), which have large climate impacts similar to sulfur hexafluoride. Significant GHG

¹ Notice of Public Availability of Modified Text and Availability of Additional Documents; Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Regulation, available at: <https://www.arb.ca.gov/regact/2018/capandtrade18/capandtrade18.htm>.

reductions can be realized through the implementation of various programs for reducing HFC emissions (such as rebate programs to replace refrigerants in commercial refrigeration systems through retrofits or new equipment installations). Because these programs can provide GHG reductions that benefit ratepayers, expenditures on such projects or activities should be an allowable use of allocated allowance proceeds.

Finally, we agree with ARB's proposal to clarify that the use of allocated allowance proceeds for specific activities or projects allowable under the Cap-and-Trade Regulation would not be deemed "volumetric." This clarification is needed to confirm that spending allocated allowance proceeds on purchasing renewable electricity from a specific facility or on an infrastructure project to support vehicle electrification would not be deemed volumetric and would therefore be permissible under the Cap-and-Trade Program.

II. GHG accounting for the Energy Imbalance Market (EIM)

LADWP believes that the proposal to address EIM emissions leakage through the direct retirement of allowances allocated to EDUs that are EIM Purchasers in the amount of each EDU's EIM Outstanding Emissions is an improvement over the 45-day EIM Purchaser proposal. LADWP agrees that the new proposal will better address concerns about effectively planning or managing compliance obligation from EIM Purchaser Emissions. However, ARB staff should take steps to coordinate the Cap-and-Trade compliance schedule with the timeframes needed for allocating compliance instruments and evaluating the associated financial risk of unforeseen compliance obligations. In particular, verified emission reports are due to ARB by August 10 and Publicly Owned Utilities (POU) have until September 1 to submit their POU Allocation Distribution Form. To facilitate advanced planning on these important allowance compliance matters, LADWP recommends that ARB staff inform POUs of their EIM Outstanding Emissions well in advance of the Allocation Distribution Form deadline. Such advance notice will allow POUs to plan and determine the most appropriate allocation distribution amount.

In the proposed 15-day modifications to Section 95852, the Executive Officer will annually retire allowances from the "Allocation Holding Account" in the full amount of the most recent data year's EIM Outstanding Emissions. The term "Allocation Holding Account" is not defined or otherwise referenced in the regulation. There is a holding account (as described in Section 95831), limited use holding account (as described in Section 95831), and annual allocation holding account (as described in Section 95831). Since the intent is "the direct retirement of allowances allocated to EDUs," it appears that the Allocation Holding Account is referring to the *annual* allocation holding account, the account where allowances are held prior to being allocated to the compliance account or limited used holding account. However, if the Allocation Holding Account is referring to the general holding account (subject to the holding limit), this will create a situation where EDUs will have to purchase allowances in order to be able to transfer into their general holding account to be retired for the EIM Outstanding Emissions. LADWP recommends that ARB clarify the definition of Allocation Holding Account, and in so doing, confirm that it is not referring to the general holding account.

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If you have any questions, please contact me at (213) 367-0403 or Ms. Jodean Giese at (213) 367-0409.

Sincerely,

A handwritten signature in blue ink that reads "Mark J. Sedlacek". The signature is fluid and cursive, with the first name "Mark" being the most prominent.

Mark J. Sedlacek
Director of Environmental Affairs

BP:srt

c: Mr. Jason Gray, ARB
Ms. Brienne Aguilar, ARB
Mr. Mark Sippola, ARB
Ms. Rachel Gold, ARB
Ms. Jodean Giese