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RE: Joint Utilities Group Comments on the Draft 2024 IEMAC Annual Report

Dear IEMAC Members:

The Joint Utilities Group[1] (JUG) appreciates the opportunity to offer comments on the Independent Emissions Market Advisory Committee's (IEMAC) Draft 2024 Annual Report. The JUG is comprised of investor-owned utilities (IOUs), publicly owned utilities (POUs), and electric cooperative utilities. The JUG members are compliance entities subject to the requirements of California's Cap-and-Trade program on behalf of our customers, and we welcome the IEMAC's focus on affordability throughout the draft report. As an overarching point, we wish to emphasize the importance of ensuring affordable electricity rates and bills in order to support the state's transition to clean energy and electrified end uses. Any proposed changes to the Cap-and-Trade program must be considered - individually and collectively - through this lens. CARB should avoid any changes, however well-intentioned, that would exacerbate affordability challenges and progress toward the state's electrification and clean energy goals. We provide the following comments by chapter, for consideration by the members of the IEMAC for the Final 2024 Annual Report.

I. Chapter 1: "Assessing the Affordability Implications of California's GHG Cap and Trade Program" (Fowlie and Burtraw)

As the IEMAC notes, California's general climate policy portfolio hinges on a number of factors, namely expanding electrification as an important element in the state's decarbonization transition. This will require residents, businesses, and industry to change their behavior and shift to adopting electrified solutions for their cars and energize their homes and businesses. Some of these customers may incur minimal upfront costs to electrify while others could face costly panel upgrades, building retrofits, and expensive appliance replacements. Others may be thwarted altogether in the absence of transitions in existing housing and vehicle stock and may instead

[1] Pacific Gas & Electric Company, San Diego Gas & Electric Company, Southern California Edison Company, Sacramento Municipal Utility District, Turlock Irrigation District, Liberty Utilities, Bear Valley Electric Service, Northern California Power Agency, Southern California Public Power Authority, Golden State Power Cooperative, and the California Municipal Utilities Association.

need to pursue clean fuel solutions that can complement electrification and support the overall decarbonization objective. Achieving broad electrification will require incentivizing fuel switching and electricity rates low enough to compensate or significantly mitigate electrification costs, including any initial costs associated with transitioning to electric appliances and vehicles. However, as the state makes this transition, consideration must also be given to the impact on household energy costs holistically. The state's natural gas infrastructure is intertwined with the electric grid and the two systems work in tandem to provide reliable energy to Californians; it is critical to ensure that rapid electrification does not result in significant cost increases for those who continue to depend on the natural gas system as long as it is needed to support Californians.

As illustrated in Chapter 1 if the Draft Report, Cap-and-Trade compliance is only one of multiple cost elements in utility rates.[2] Governor Newsom's Executive Order N-5-24 on energy affordability notes the imperative to ensure affordable energy to support the state goals and the rising cost of the transition,[3] and Cap-and-Trade allowance allocations to utilities directly help support energy affordability. While Cap-and-Trade Program allowances do not, and cannot, mitigate all factors that lead to escalating utility rates, allowance allocations to electrical distribution utilities (EDUs) are critical for mitigating additional cost pressures for consumers. To date, utility customers have benefited from the allocation of allowances to the EDUs (varying by utility), as demonstrated in the Use of Allowance Value reports and Summary of Allowance Value Expenditure Data that are published by CARB each year.[4] The JUG notes that while the IEMAC report only mentions the climate credit, there are many other ways in which allowances allocated to utilities benefits customers. These benefits include direct payments to customers for financial relief, procurement of renewable energy resources, investments in electrification infrastructure, and other programs which reduce greenhouse gas (GHG) emissions, including programs targeted directly for the benefit of low-income and disadvantaged communities, in addition to the electric IOU bi-annual climate credits. In addition, POUs have the option of depositing some allowances for compliance to avoid passing on program costs to ratepayers. The use of allowance value is strictly limited to programs and measures that directly benefit electricity ratepayers.[5] The climate credits and programs made possible by the EDU allocations have helped to avoid or offset utility customer costs, as well as costs for GHG-reducing customer-facing programs that would otherwise have to be funded directly through customer bills.

The IEMAC authors candidly recognize that the Cap-and-Trade program will impact retail energy prices, as it places a price on GHG emissions. The authors go on to note that efforts to transition household energy use to electricity and ongoing decarbonization of California's electricity grid will mitigate the impacts of higher GHG prices on household energy costs.[6]

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[2] 2024 Draft IEMAC Report, Chapter 1 (Affordability Implications), p. 1.
[3] Governor Newsom's Executive Order N-5-24, issued October 30, 2024, addresses energy affordability. See the order for more information: GSS_9610_1E-20241030131318.
[4] https://ww2.arb.ca.gov/our-work/programs/cap-and-trade-program/allowance-allocation/edu-ngs.
[5] See Section 95892 of the Cap-and-Trade Regulations; Title 17, CCR § 95892.
[6] 2024 Draft IEMAC Report, Chapter 1 (Affordability Implications), p. 15.

While the JUG does not disagree with this statement, the JUG believes that directly allocating allowances to utilities for the benefit of customers is even more important and relevant today than it was in the past. This is because the EDU allocation provides direct benefits to electric ratepayers today, while the mitigating effect of electrification and decarbonization on the GHG compliance costs look further out into the future. As such, given the current upward pressure on energy rates, historically high interest rates, and the need to keep electricity affordable to encourage electrification and achieve the State's GHG emission reduction goals, it is vital that electricity utility customers continue to receive the benefits of the EDU direct allocations to mitigate bill impacts that would otherwise be associated with the Cap-and-Trade Program.

The IEMAC recommends reconsidering the uses of EDU allowance value, including the design of customer rebates so that they are more salient for households, especially lower-income households. While this aim is laudable, the JUG points out that eliminating rebates for all other households could have the unintended consequence of hurting moderate-income households that do not qualify for low-income support programs but are still vulnerable to high energy costs. Moreover, as noted above, direct customer rebates are just one method by which EDU allowance value can benefit customers. The current regulatory structure allows POUs different options to optimize use of allowance value to provide the maximum benefit for the specific needs of their communities. In order to avoid unintended consequences, the JUG believes that the Greenhouse Gas Reduction Fund (GGRF) could be used to provide supplemental relief for low-income households.

II. Chapter 2: Cap-and-Trade and Cost Containment in California (Fowlie and Holt)

The JUG appreciates the focus of this chapter on cost-containment and fair cost allocation as guiding principles to ensure that California's clean energy transition is affordable and equitable. As noted by the authors, re-authorization of the Cap-and-Trade Program is critical within this context.[7]

With respect to Renewable Portfolio Standard (RPS) costs, we recommend referencing the 2024 Padilla Report issued by the California Public Utilities Commission to the legislature for the most up-to-date publicly available data.[8]

III. Chapter 3: Allowance Allocations and Financial Flows (Cullenward and Roedner Sutter)

The JUG agrees with the overall conclusion in this chapter that "given the complexity and interactions between policy design details, legislative intervention that directs outcomes for specific regulatory formulas or parameters risks creating unintended consequences and suboptimal outcomes."[9] The legislature is well positioned to continue to provide high-level

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[7] 2024 Draft IEMAC Report, Chapter 2 (Cost Containment), p. 6.

[8] See CPUC, 2024 Padilla Report, May 2024: https://www.cpuc.ca.gov/-/media/cpuc-website/industries-and-topics/documents/energy/rps/2024/2024-padilla-reportvfinal.pdf

[9] 2024 Draft IEMAC Report, Chapter 3 (Allowance Allocations/Financial Flows), p. 7.

guidance while delegating the specific mechanisms on allowance allocations to the public regulatory process at the California Air Resources Board (CARB).

Of the potential policy interventions presented in this section, the JUG supports prioritization of allowance allocation to electric utilities given the importance of energy rate affordability in the context of expanding electrification; doing so supports the State's climate goals while still protecting household consumers. As mentioned above, it is important to recognize that maintaining or increasing the share of EDU allocation would also lead to important benefits for POU and electric co-op customers as well. However, the JUG recommends against imposing universally-applied new conditions on how these utilities can use allowance proceeds, which would ignore the unique circumstances of each utility and how they can best support their customers.

With respect to EDU allocations specifically, the JUG also respectfully disagrees with the characterization in this chapter that "Because many IOUs receive more allowances than they need for compliance purposes, they are also required to use any surplus funds collected from the sale of their consignment allowances to benefit their customers…"[10] The use of IOU allowance revenue is unrelated to compliance needs, as electric IOUs cannot deposit allocated allowances for compliance or use allowance value to purchase allowances for compliance; therefore, there are no "surplus" funds. As CARB noted in its 2017 Cap-and-Trade rulemaking, "the purpose of EDU allocation is to protect EDU ratepayers from the costs that the Cap-and-Trade Regulation imposes on these ratepayers as a whole."[11] Moreover, EDUs' allocated allowances are based on forecasted emissions; this structure provides an incentive for EDUs to further reduce actual emissions relative to the forecast so that benefits accrue to their ratepayers. Additionally, as noted above, the utility use of allowance value is limited by the Cap-and-Trade regulation.[12] Therefore, the statement that "public electric utilities can use the allowance as they see fit,"[13] is not correct, as the public utilities – POUs and electric cooperatives – must spend the allowance value in accordance with the regulation and for the benefit electric utility ratepayers.

IV. Chapter 4: Market Design to Strengthen California's Climate Policy Portfolio (Burtraw and Cullenward)

The JUG appreciates the succinct summary in this chapter of the potential benefits of an Emissions Containment Reserve (ECR) for California's Cap-and-Trade Program. However, the JUG disagrees with the statement that "For an Emissions Containment Reserve to benefit the [GGRF], it is important that adjustments to supply accrue not just by constricting auctioned supply but also across all channels through which allowances enter the market, including

[10] 2024 Draft IEMAC Report, Chapter 3 (Allowance Allocations/Financial Flows), p. 3.

[11] *Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms*, Final Statement of Reasons, dated August 2017; p. 34.

[12] See Section 95892 of the Cap-and-Trade Regulations; Title 17, CCR § 95892.

[13] 2024 Draft IEMAC Report, Chapter 3 (Allowance Allocations/Financial Flows), p. 3.

allowances consigned by utilities and free allocation to industry."[14] An ECR could be implemented without impacting the sale of utility allocations and still benefit the GGRF. The prioritization of the sale of utility allowances reflects the importance of the value these allowances provide to California households and the impact they have directly on customer bills; any changes would result in further upward pressure on electric rates and reduced opportunities to mitigate adverse rate impacts. Given the concerns around energy affordability in California, the JUG does not believe it prudent, or necessary, to change the order of allowance sales in auctions.

V. Conclusion

The analysis reflected in the Draft IEMAC 2024 Report demonstrates the important role the Cap-and-Trade Program plays in meeting California's energy and decarbonization goals. The JUG believes that the IEMAC's own analysis also demonstrates the importance of the current allocation of allowances to electrical distribution utilities and urges the IEMAC to reconsider recommendations to alter the ways in which the utilities pass the allowance value through to their customers.

Respectfully submitted.

The Joint Utilities Group

[14] 2024 Draft IEMAC Report, Chapter 4 (Market Design), p. 3.