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May 22, 2017

The Honorable Jerry Brown
Governor of California
State Capitol, Suite 1173 Sacramento, CA, 95814

The Honorable Kevin de León
Senate President pro Tempore
California State Senate, Room 205, Sacramento, CA 95814

The Honorable Anthony Rendon
Assembly Speaker
California State Assembly, Room 219, Sacramento, CA 95814

RE: California Utilities SUPPORT reauthorization of Cap-and-Trade Program

Dear Governor Brown, President pro Tempore de León and Speaker Rendon:

The California Utilities¹ respectfully submit this letter, on behalf of our customers, to the Governor and leaders of the California State Senate and Assembly regarding pending legislative efforts to extend California's landmark Cap-and-Trade program beyond 2020. The California utilities continue 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 target and provides flexibility to foster innovative GHG emissions reductions that minimize costs to California consumers and businesses. The California Utilities support its legislative reauthorization through a two-thirds majority vote.

¹ Southern California Edison, Pacific Gas & Electric Company, San Diego Gas and Electric, SoCal Gas, Los Angeles Department of Water and Power, Sacramento Municipal Utility District, Southern California Public Power Authority, Northern California Power Agency, California Municipal Utilities Association, PacifiCorp, Turlock Irrigation District, Modesto Irrigation District, Golden State Power Cooperative, City of Long Beach Gas and Oil Department, City of Palo Alto, City of Vernon, Southwest Gas, Liberty Utilities, M-S-R Public Power Agency

Utility Cap-and-Trade Principles

The following are key principles that we collectively support and recommend be maintained as part of Cap-and-Trade design and extension:

1. **Protect against significant customer bill impacts by continuing the direct allocation of allowances to utilities on behalf of their customers.** Continuation of direct allocation will save our residential and business customers billions in bill impacts and protects low income Californians, all while achieving environmental policy goals. Direct allocation of allowances to the electric and gas utilities for the benefit of our customers has been a core consumer protection since the Program's inception – and is now more important than ever. The benefits of this direct allocation have been returned to customers via the California Climate Credit or conveyed through similar direct benefits to consumers. The Energy Utility Sector complies with numerous direct regulations and programs (such as the 50% Renewable Portfolio Standard, energy efficiency targets, energy storage mandates, low carbon or renewable gas initiatives, etc.). Direct allocation can help ease the cost burden of these mandates and additional programs – which helps maintain support for the state's climate goals and fosters long-term decarbonization.
2. **Build on the GHG and criteria pollutant reductions coming from the Cap-and-Trade Program by enhancing measures targeted to address air quality and public health concerns, particularly in disadvantaged communities.** A continued Cap-and-Trade Program in the present form will result in both GHG and criteria pollutant reductions. The State, in coordination with local air agencies, should focus additional attention on programs and policies that directly and effectively improve air quality and public health outcomes for our state's most vulnerable populations. California should also strategically increase investments in disadvantaged and low income communities to meaningfully reduce air pollution and improve public health, increase access to clean transportation, renewable energy, energy efficiency, and economic development opportunities.
3. **Strengthen Cap-and-Trade with consumer protection 'guard rails' to ensure a politically sustainable program.** In addition to annual floor price increases to encourage GHG-reducing investments, it is necessary to contain customers' compliance costs. Strong cost-containment mechanisms provide confidence in program continuation to participants and investors. Cost containment can take many forms, including a firm price ceiling that maintains the declining limit on emissions, and/or a strengthened Allowance Price Containment Reserve structure. Continued roles for offsets and linkages with other programs are important in the Cap-and-Trade Program since they help support cost-containment and expand GHG reductions and co-benefits in sectors outside the cap.

The California Utilities will continue to evaluate legislative proposals against these principles and stand ready to work with you and all interested stakeholders on the successful reauthorization of California's Cap-and-Trade Program. We would be happy to meet with you and your staff to discuss this letter, and answer any questions. Thank you for your time, and for your careful consideration of these issues.

CC:

Nancy McFadden, Office of the Governor
Mary Nichols, California Air Resources Board
Steve Cliff, California Air Resources Board
Kip Lipper, Office of President pro Tempore de León
Marie Liu, Office of Speaker Rendon