

ISSUE BRIEF

Preserving Affordability & Reducing Greenhouse Gas Emissions

California POU's role in the Cap-and-Trade Program

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In California, electric utilities — including publicly owned electric utilities (POUs) that provide sustainable, reliable and affordable electricity to about 25% of the state's customers — are leading the efforts to reduce greenhouse gas (GHG) emissions. The results already are impressive: GHG emissions from the electric sector have declined by 35% percent since 2011, the largest reduction of any sector. Under several state laws and policies, California POU's will continue to take action to reduce their GHG emissions to meet the state's 2030 emission reduction goal.

Cap-and-Trade Program Cost Effectively Lowers GHG Emissions While Also Providing Revenues to the State

The Cap-and-Trade Program is one of two major programs that California POU's comply with to reduce GHG emissions. The other is the Renewables Portfolio Standard (RPS), which requires POU's to procure an increasing amount of renewable energy and to plan for a 100% zero-carbon electric grid.

The state Air Resources Board (ARB) first developed the Cap-and-Trade Program under the California Global Warming Solutions Act (AB 32) that passed in 2006. The Cap-and-Trade Program officially began in 2013, and in 2017 ARB's authority to conduct the program was extended until 2030. Under the program, covered entities — industries and sectors that have GHG emissions — must retire carbon allowances under a specified emissions cap. Each allowance is equivalent to one metric ton of carbon dioxide. ARB holds quarterly auctions where carbon allowances are bought and sold.

The Cap-and-Trade Program design includes an annually increasing allowance price floor and an annually decreasing emissions cap. This means that covered entities, each year, must have fewer emissions and must pay more for the ability to emit.

The program is projected to result in a 38% reduction in statewide GHG emissions by 2030. To date, the Cap-and-Trade Program also has raised more than \$12 billion for the state, which spends

that additional revenue on a variety of programs and projects.

Cap-and-Trade Program Protects Electric Ratepayers and Promotes Local GHG Reduction Efforts

When designing the Cap-and-Trade Program, the Legislature and ARB recognized that POU's and other California electric utilities are unique. For instance, POU's already must comply with the RPS — and other mandates — to meaningfully reduce their GHG emissions. Recognizing the full spectrum of carbon reduction requirements and the costs imposed on electric customers to meet the requirements, as part of the Cap-and-Trade Program POU's are provided carbon allowances by ARB on behalf of their customers.

In some cases, the allowances are sufficient to cover a POU's GHG emission compliance obligation. But sometimes a POU needs to purchase more allowances in the quarterly allowance auctions. Any allowances a POU does not retire can be sold in an auction and the proceeds must be used for activities that reduce GHG emissions. To date, POU's have relied on auction proceeds to invest more than \$275 million in renewable energy, \$74 million in energy efficiency and over \$5.5 million in transportation electrification.

California Is a National Leader on GHG Reductions and Carbon Pricing; Affordability of Electricity Must Be Preserved

California's Cap-and-Trade Program is the only economy-wide program in the U.S. that puts a price on carbon emissions. Along with the state's other climate laws, it sets California at the forefront of addressing climate change. The current Cap-and-Trade program design — with allowances allocated to POU's on behalf of their customers, and an annually decreasing cap — results in meaningful and significant GHG emission reductions and appropriately supports POU investments in renewable energy, energy efficiency and electric vehicles, all while protecting utility customers from rate increases.

CMUA's members are California's not-for-profit, publicly owned electric utilities, that provide affordable, reliable and sustainable electricity to 25% of our state. Operating without private funding or profits, our members are community-focused, and support local businesses and residents in a cost-effective manner, with rates on average 15 below private utilities.