Los Angeles Department of Water and Power (Cindy Parsons)

See attached comment letter.

Los Angeles Department of Water & Power
BUILDING A STRONGER L.A.

May 4, 2026

Ms. Lauren Sanchez
Chair, California Air Resources Board
1001 I Street
Sacramento, CA 95814
Submitted electronically

Dear Ms. Sanchez:

Subject: Comments on the 15-day Proposed Amendments to the Cap-and-Invest Program Regulation

The Los Angeles Department of Water (LADWP) appreciates the opportunity to provide comments to the California Air Resources Board (CARB) regarding the proposed 15 day amendments to the Cap-and-Invest program regulation, released for public comment on April 14, 2026.

The Cap-and-Invest program offers California a cost-effective way to reach its climate goals. LADWP is committed to partnering with CARB and other stakeholders to support the continuation of a sustainable and robust carbon market. Recognizing the substantial investments that California's electric ratepayers have already made towards decarbonization, LADWP also supports a continued focus on ratepayer affordability.

Consistent with these strategic priorities, LADWP acknowledges several improvements in the 15-day proposed amendments, such as the inclusion of the "Effective RPS" in the updated electric distribution utilities' (EDUs) allowance allocation calculation. LADWP thanks CARB staff for engaging in detailed discussions with the stakeholders throughout this proceeding.

The current Cap-and-Invest program design with its pre-set allocation of allowances to EDUs has been effective in reducing greenhouse gas (GHG) emissions from electricity generation while mitigating cost pressures for electricity ratepayers. LADWP supports Assembly Bill (AB) 1207's overall goals of prioritizing affordability and ensuring regulatory certainty with respect to the Cap-and-Invest program.

However, one of LADWP's remaining primary concerns with CARB's proposed amendments is the loss of allowances due to updating the EDU allocation based on recent load and electricity supply forecasts within the 2021-2030 period for which EDUs were given a pre-set, fixed allocation. The pre-set allocation provided multi-year predictability needed to plan and invest towards the decarbonization of the electricity supply. Notably, replacing the pre-set allocation with an updated allocation penalizes EDUs that took action to reduce GHG emissions early. Early emission reductions are important to avoid the most severe impacts of climate change, so should be rewarded not penalized. While applying the Effective RPS helps to reduce the impact of updating the EDU allocation, it is not sufficient to offset a large loss of allowances to LADWP in 2027 due to the early retirement of coal-fired generating units.

LADWP's comments are described in detail below.

I. EDU Allocation, the Effective RPS, and Credit for Early Emission Reductions

LADWP appreciates that CARB incorporated the "Effective RPS" into the updated EDU allocation calculation, as requested by LADWP and other stakeholders in comments on the 45-day proposal.[1] Applying the Effective RPS results in a more realistic estimate of RPS-eligible electricity that counts as zero emission under CARB's GHG emission reporting regulation and a more realistic estimate of expected emissions subject to the Cap-and-Invest compliance obligation, for allowance allocation purposes.

However, incorporating the Effective RPS into the updated allocation calculation is still insufficient to fully offset the allowance reduction associated with updating the EDU allocation based on the recent forecasts. In the 15-day proposal, LADWP's updated allocation for years 2027-2030 is a ten percent reduction which translates to a loss of 2.5 million allowances relative to the original pre-set allocation in Table 9-4. The largest impact hits in a single year (2027), associated with early retirement of the coal-fired generating units.

During the 2016-2017 rulemaking, CARB established a pre-set 2021-2030 EDU allocation as an incentive for EDUs to reduce emissions early. In the Final Statement of Reasons, CARB stated "Given that EDU allowance allocation is based on cost burden, this is one of the reasons that CARB has opted to set fixed EDU allowance allocations for 2021-2030. Any changes that utilities make to reduce GHG emissions will reduce their GHG costs while not changing their allocations, thus resulting in a net benefit."[2]

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[1] https://scs-public.s3-us-gov-west-1.amazonaws.com/env_production/oid377/did200184/pid_213315/assets/attachments/22741/ch0tip6lw3e_document.pdf?v=21384

[2] Page 39. August 2017 Final Statement of Reasons for "Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms. https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2016/capandtrade16/ctfinsor.pdf

In response to the promise of a fixed 10-year allocation, LADWP and other publicly owned utilities (POUs) took action to reduce emissions early. LADWP is one of six California POU participants in the Intermountain Power Project (IPP) that chose to retire two coal-fired generating units in 2025, one-and-a-half years in advance of the contract expiration date. The fixed 2021-2030 allocation included allocated allowances for the coal-fired units through June 2027 based on the power purchase agreement expiration date as recognized by CARB during the 2016-2017 rulemaking[3].

In the current rulemaking, CARB recalculated the 2027-2030 EDU allocation using a recent load and electricity supply resources forecast that does not include electricity supply from the coal-fired generating units beyond 2025. As a result, LADWP's 2027 allocation was reduced by 1.9 million allowances. The loss of allowance value in that single year is significant and sets a precedent of uncertainty for future investment to reduce emissions early.

LADWP was planning to use the value of those allowances to offset the incremental cost associated with decarbonization investments, including replacement resources needed to transition away from the IPP coal-fired generating units, thereby reducing upward pressure on customer rates. Since the updated EDU allocation reduces the financial benefit of taking early action to reduce GHG emissions, LADWP requests that CARB provide early action credit in the form of a one-time supplemental allowance allocation to make the IPP participants whole. Retiring the coal-fired generating units early is a discrete action that significantly reduces GHG emissions early and contributes toward achieving the State's GHG emission reduction goals within targeted timeframes. A simple way to provide a supplemental allowance allocation is to adjust the coal megawatt-hours (MWh) for year 2027 in the "Attachment B 2027-2030 EDU allocation" spreadsheet posted April 14, 2026, from zero to the previous value from the "Post 2020 EDU Allowance Allocation spreadsheet" posted April 13, 2017. This adjustment is illustrated below.

[3] CARB Responses on pages 40-43. August 2017 Final Statement of Reasons for Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms. https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2016/capandtrade16/ctfinsor.pdf *To reward early conversion away from coal and provide the incentive effect several commenters mentioned, ARB has allocated for the Intermountain Power Plant power as if it were to continue providing coal power through June 2027, when its contract ends.* and *The commenters request that EDU allowance allocation assume that the Intermountain Power Plant will be in operation through 2027 because its contract ends in 2027 and this assumption will reward utilities if the plant closes early. Staff agrees, and in the second 15-day proposal to change the Regulation, staff proposed 2021-2030 EDU allowance allocations that assume that coal power from the Intermountain Power Plant will be purchased through June 2027, when utilities' contracts with the plant end. This change incentivizes the early plant closure that the commenters have requested.*

Calculation of supplemental allocation for early emission reductions

Attachment B: 2027-2030 EDU allocation (posted April 14, 2026), LADWP tab	Year 2027 Coal (MWh) (cell B6)	Year 2027 Annual Allocation (allowances) (cell B16)
15-day proposal	0	5,359,013
Supplemental allocation for early retirement of coal-fired generating units	3,679,180*	7,246,497
Difference		1,887,485

* Source: Post-2020 EDU Allowance Allocation spreadsheet (posted April 13, 2017)[4], LADWP tab, cell H6

II. Post-2030 EDU Allowance Allocation and Need for Regulatory Certainty

LADWP understands that CARB plans to address the post-2030 EDU allocation in a future rulemaking. As CARB contemplates the post-2030 EDU allocation methodology, LADWP recommends that CARB consider the following:

1) Continue to apply the “Effective RPS” to ensure a realistic estimate of zero emission RPS-eligible electricity when calculating expected emissions for allocation purposes.

2) The importance of cost predictability for the longer-term investments that will be needed to meet LADWP’s decarbonization goals. Cost predictability is essential for resource, budget, and financial planning within an operating environment that is already complex and subject to multiple external forces. While future carbon prices will fluctuate, maintaining a fixed EDU allocation framework provides utilities with the certainty needed to manage transition costs, preserve affordability, and make timely long-term investments in decarbonization.

3) A predictable allowance allocation (or at minimum a guaranteed forward allocation floor) is essential for LADWP to plan for and finance clean energy investments as part of our long-term resource plan. Under the LA100 Plan, the transition to a carbon-free electricity supply requires large, multi-year capital commitments for renewable generation, transmission upgrades, energy storage, clean firming and dispatchable resources, and grid modernization. These investments have long-term planning horizons and depend on reasonable certainty around cost assumptions and available funding streams.

[4] https://www.arb.ca.gov/regact/2016/capandtrade16/attach10.xlsx

A pre-set, fixed EDU allocation provides value in several ways:

- **Planning certainty:** A stable allowance allocation provides greater confidence in long-range resource planning and portfolio optimization, which is necessary for implementing LA100 Plan investments on schedule.

- **Investment support:** Allowance value can help offset transition costs and provide funding that can be reinvested into clean energy programs, reducing reliance on customer rate increases to finance decarbonization.

- **Avoiding re-optimization and delay:** If CARB periodically recalculates allocations, it changes underlying GHG price and funding assumptions that informed prior planning decisions, potentially requiring LADWP to revisit resource plans, re-optimize portfolios, and delay implementation of major investments.

- **Affordability:** Predictable allocation support helps maintain progress toward higher renewable and zero-carbon targets in a cost-effective manner, consistent with LA100's objective of achieving decarbonization while managing customer bill impacts.

For these reasons, LADWP requests that CARB provide a fixed post-2030 allocation, or at minimum a multi-year guaranteed allocation horizon, that provides sufficient certainty for utility-scale clean energy investment planning.

III. RPS Adjustment

LADWP appreciates the clarifying edits to the RPS adjustment eligibility criteria in section 95852(b)(4) subsection (B) in response to comments on the 45 day proposal. LADWP thanks CARB staff for making this change.

IV. Transfer of Natural Gas Suppliers' Allowances to POUs

LADWP supports the revised schedule to complete the transfer of allocated allowances from natural gas suppliers to EDUs by the end of 2031. LADWP is discussing how best to distribute the value of these additional allowances to its residential customers, and appreciates the flexibility afforded by removing the requirement that POUs must distribute the credit to ratepayers in a non-volumetric manner.

V. Compliance Period Duration and Calculating the Limited Exemption

In comments on the 45-day proposal, LADWP requested clarification on how the Limited Exemption will be calculated for a two-year compliance period as well as the impact on compliance with the trading and banking rules. Since it appears this comment was not addressed in the 15-day proposal, LADWP requests that CARB reconsider this comment, which is copied below.

> The proposed amendments to the Cap-and-Invest program include changes to the duration of the compliance periods from three-year compliance periods to alternating two-year and three-year compliance periods. This proposal will introduce complications to entities' compliance strategies and may cause misalignment with the three-year verification cycle in the Mandatory Reporting Regulation. LADWP recommends that CARB staff evaluate the impact of a two year compliance period on compliance with the trading and banking rules.
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> LADWP also requests clarification on how CARB would calculate and reset the Limited Exemption under a two-year compliance period. According to CARB's *Guidance on Limited Exemption from the Holding Limit*[5], "At the start of a new compliance period, the Limited Exemption is a smaller value, representing the two most recent emissions years' reports, and increases over time as additional emissions obligations are due for surrender. The Limited Exemption is updated each year to reflect additional verified covered emissions that result in an obligation due." In the current Regulation, Section 95920(d)(2) details the calculation of the Limited Exemption from the Holding Limit. It is not clear how the Limited Exemption would be calculated after a two-year compliance period. LADWP recommends that CARB revise the rule language to clarify that, at the start of a new compliance period, the Limited Exemption shall represent the two most recent emissions years' reports, regardless of the number of years in the compliance period.

Conclusion

LADWP appreciates the opportunity to provide these additional comments regarding the proposed amendments to the Cap-and-Invest program regulation. The updated EDU allocation in the 15-day proposal is a significant improvement as the result of applying the Effective RPS, compared to the 45 day proposal. In the interest of mitigating the loss to LADWP of 1.9 million allowances in 2027 associated with the early retirement of the coal-fired generating units, LADWP requests that CARB consider providing a supplemental allocation to compensate for those allowances that were included in the

[5] http://ww2.arb.ca.gov/sites/default/files/cap-and-trade/limited_exemption.pdf

original 2027 allocation. LADWP also urges CARB to establish a durable post-2030 allocation framework that provides the regulatory certainty necessary to support long-term clean energy investments and protect ratepayer affordability during the transition to a carbon-free grid.

LADWP looks forward to continued collaboration with CARB to ensure the program provides appropriate incentives for decarbonization while balancing affordability.

If you have any questions, please contact me at (213) 367-0436 or Mses. Andrea Villarin or Cindy Parsons, of my staff, at (213) 367-0409, or (213) 367-0636, respectively.

Sincerely,

Katherine Rubin

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Katherine Rubin
Director of Corporate Environmental Affairs

CP
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