



San Diego County Water Authority

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October 17, 2011

Clerk of the Board
Mr. James Goldstene, Executive Officer
Ms. Mary Nichols, Chair
California Air Resources Board
1001 I Street
Sacramento, CA 95814

MEMBER AGENCIES

- Carlsbad Municipal Water District
- City of Del Mar
- City of Escondido
- City of National City
- City of Oceanside
- City of Poway
- City of San Diego
- Fallbrook Public Utility District
- Helix Water District
- Lakeside Water District
- Olivenhain Municipal Water District
- Otay Water District
- Padre Dam Municipal Water District
- Camp Pendleton Marine Corps Base
- Rainbow Municipal Water District
- Ramona Municipal Water District
- Rincon del Diablo Municipal Water District
- San Dieguito Water District
- Santa Fe Irrigation District
- South Bay Irrigation District
- Vallecitos Water District
- Valley Center Municipal Water District
- Vista Irrigation District
- Yuima Municipal Water District

OTHER REPRESENTATIVE

- County of San Diego

Re: Proposed Amendments to the ARB’s regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms

Dear Mr. Goldstene and Ms. Nichols:

The San Diego County Water Authority is the water wholesaler for San Diego County and provides water to its 24 member agencies that are responsible for providing water to the end customer, the residents and businesses in the county. We are also the largest member agency to the Metropolitan Water District (MWD) who has been actively engaging in the discussions with the California Air Resources Board (ARB) regarding your proposed California Cap-and-Trade Program. While we understand that ARB has statutory deadlines in implementing the Program, a consequence cannot be designing it an inequitable manner.

As a public utility providing an essential resource to the residents of San Diego County, we have become concerned with not only the program’s current design, but with the process as well. By including MWD as essentially an electricity retailer for purposes of the program but not affording them allowances of free allocations that more typical electricity retailers are being provided, an inequitable arrangement has been created that will result in higher costs to MWD. As MWD has stated to you, they will be compelled to pass on these higher costs to its ratepayers, which includes the Water Authority. For the same reasons as MWD, we will need to pass these costs onto our member agencies, resulting in higher water rates to the end users.

The program, by its design, will cost our water customers additional money. We understand an estimate of this amount is \$5 million. We are concerned that the method by which the ARB will mitigate these additional costs to the water customer is to provide a rebate or credit on the SDG&E (electric) bill. This approach is flawed in that water and electric customers are not one and the same. For example, a grower uses a high amount of water but not electricity. Growers would therefore be significantly impacted while others would not. In fact this concept may be a net benefit to the low water, high electricity users.

A public agency providing a safe and reliable water supply to the San Diego region

We would strongly advocate that MWD be placed into a new category or sub-category that recognizes their role as a non-marketer of electricity (i.e. an agency that uses for public utility purposes all of the electricity it acquires) and then be exempted from the proposed cap-and-trade program completely. We believe this would satisfy the goals of the California Cap-and-Trade Program. It's important to note that MWD would not be excluded from certain responsibilities such as the reporting requirements that are mandated in the program, they just would not participate in the cap-and-trade component of the regulations.

The only other viable and equitable alternative to exempting MWD from the program would be to provide MWD with the same free allowances that the public electric utilities are being afforded in your program. The customers of a utility providing the essential public resource of water deserve the same cost relief as the customers of a utility providing an electric resource. We understand that staff from the State Water Project has been working with your staff in developing an allocation approach that would provide this relief while minimally affecting the other utilities that are currently included in the allocation formula, as well as being a non-material change to the program.

We should also note our concern with what seems to be a flawed process in developing the currently proposed allocation strategy. We understand that the water sector, unlike those in the electricity sector, was excluded from many of the meetings that ARB staff conducted in crafting the approaches for allocating the free allowances. This may be a reason that the current proposal is detrimental to MWD and its member agencies. This would, of course, violate the rights of those of us in the water sector as well as the customers we serve.

In conclusion while we support goals of the California Cap-and-Trade program, it cannot be designed and administered in such a way that disproportionately impacts the water ratepayer to the benefit of the electricity ratepayer. We believe that the changes as outlined in this letter should be made in order to make the program equitable.

Sincerely,



Maureen A. Stapleton
General Manager

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