Solar® Turbines
A Caterpillar Company

Solar Turbines Incorporated
9300 Sky Park Court
San Diego, CA 92123
Tel: (858) 694-1616

May 21, 2013

Solar Turbines Comments - May 1 ARB Staff Workshop on CHP and Cap & Trade

Solar Turbines, Inc. would like to thank the ARB for the opportunity to comment on the May 1st.

Allowances for Universities: Solar Turbines Supports

For Universities that are in Cap & Trade, most or all of whom have an operational CHP system, transitional assistance was proposed in the form of allowances equal to their three year historical fuel use baseline (excluding electricity exports). Such allowances would decline in proportion to the cap through 2020. Solar Turbines supports this proposal, aimed at entities that have taken early actions and provided leadership to reduce GHG emissions. We recommend that eligibility for this transitional assistance be broadened to include other institutional and private entities who have demonstrated similar early action and leadership.

Exempt "But For" entities from Cap & Trade: Solar Turbines Supports

ARB staff proposed to exempt "But For" entities from Cap & Trade during the first compliance period if both steam emissions and electricity emissions are less than 25,000 $MTCO_2e$. We support this proposed approach. However, Solar Turbines asks that the offsetting boiler efficiency assumption be set at 80% which is a typical value for today's large steam plants. We also recommend that the word "steam" be replaced with "useful heat" as steam is not always the heat output form from a CHP system.

Cap & Trade will incentivize CHP: Solar Turbines Disagrees

ARB stated that in the 2nd compliance period, all CHP facilities, whether as a covered entity or through a carbon adder in the price of natural gas, will be on the same economic playing field and Cap & Trade will provide an incentive for efficient CHP. Solar Turbines disagrees with this statement.

ARB acknowledges that efficient CHP displaces less efficient wholesale fossil generation sources from the California grid and uses an emissions benchmark of 0.431 $MTCO_2e/MWh$. This corresponds to a 42% efficient natural gas generating plant. However, because the grid is not comprised of 100% natural gas power, the economic linkage between the carbon cost adder in natural gas and the carbon cost adder in electricity is distorted.

Because eligible renewables, large hydro, and nuclear are included in the electricity carbon adder, the adder is about one half what it would be if it were all natural gas. This results in a negative economic signal instead of a positive economic signal for CHP.

Sending this inadvertent negative market signal to existing and prospective CHP adopters goes against the fundamentals of AB 32. Those who have already made a commitment to efficient CHP will understandably lose trust in the Cap & Trade mechanism and prospective CHP adopters will question the wisdom of investing in CHP and its uncertain economic treatment under Cap & Trade.

Corrective Action is Needed: Solar Turbines Strongly Supports

This fundamental flaw with the treatment of CHP in California's Cap & Trade program must be corrected. Many prospective CHP projects are currently delayed because of this situation and without a speedy remedy, new CHP implementation will be diminished.

In order to create a level economic playing field based on CHP's GHG reducing benefits, adjustments are needed to the carbon cost for natural gas used for efficient CHP. This can be accomplished through the issuance of allowances for CHP fuel or through payments from either Cap & Trade auction proceeds or the Natural Gas Allowance revenue Fund.

Solar Turbines urges CARB and the CPUC to fix this policy inequity quickly so CHP customers can utilize this technology to reduce GHG emissions in California and companies that manufacture and sell CHP equipment can compete on a level playing field in California.

Sincerely,

Joe Allen
Solar Turbines Incorporated