The Metropolitan Water District of Southern California (Metropolitan) provides the following comments regarding Section 95895: Allocation to Public Wholesale Water Agencies for Protection of Water Ratepayers of the California Air Resources Board's (CARB) Cap-and-Trade Regulation 15-Day Discussion Draft (Draft) posted on January 31, 2014:

Background

Metropolitan appreciates the continuing efforts of CARB staff to address the issues Metropolitan has raised previously regarding the allocation of allowances to Public Wholesale Water Agencies to assist these agencies in mitigating the cost burdens imposed by the Cap-and-Trade regulations. Metropolitan also acknowledges that CARB has provided an increase in the proposed allocation for year 2015 in the Draft.

Metropolitan is responsible for acquiring the wholesale energy needed to operate its pumps on the Colorado River Aqueduct (CRA). For the entirety of its 80+ year existence, Metropolitan has relied heavily on non-Greenhouse Gas (GHG) emitting hydroelectric energy for its CRA load. Today, Metropolitan meets over 70% of the average CRA electrical pumping load with federal hydroelectric energy from the Hoover and Parker Dam Power Plants. In some years with lower CRA pumping loads, federal hydroelectric energy satisfies the entire CRA demand. The annual CRA pumping load varies, in large part, due to the changing availability of water from the State Water Project (SWP). During years of high SWP allocations, Metropolitan pumps less water on the CRA, while during low SWP allocation years, such as in 2014, Metropolitan needs to greatly increase pumping of Colorado River water.

As stated in previous comments and during meetings with CARB staff, Metropolitan is not a retail serving electric utility and as such does not fall under the Renewable Portfolio Standard (RPS) requirement. Metropolitan believes CARB's application of the standard RPS percentages (increasing from 21% in 2013 to 33% in 2020) – and particularly when applied against Metropolitan's total CRA electrical load - is not appropriate. With Metropolitan's widely varying CRA load from year to year and with such a large existing hydroelectric energy resource pool, the use of the standard RPS percentages on the total load of the CRA does not provide sufficient cost burden mitigation. This is apparent from the results of CARB's calculations as summarized in Table 9-5 of the Draft where the number of allowances allocated to Metropolitan in years 2019 and 2020 would have been zero (or negative) except for the use of an Energy Efficiency Credit of 3,908 allowances. These values are the result of applying an RPS percentage such as 33% to the entire CRA load when on average 70% of the load is already met with hydroelectric power. During years of low CRA pumping, the hydroelectric energy can satisfy 100% of the CRA load without any ability to use additional renewable energy. The result would suggest Metropolitan should acquire excess renewable energy and then be forced to dispose of some of its hydroelectric energy. This is not a desirable outcome.

Metropolitan's Alternative Allowance Allocation Proposal

Metropolitan does recognize, however, CARB's desire to incentivize an entity's acquisition of renewable energy. If CARB determines that it must apply standard RPS percentages to Metropolitan's allowance allocation, a more appropriate method for Metropolitan would be to apply the RPS percentages on the amount of non-hydroelectric energy used on the CRA. Using values from CARB's calculations and basing the increasing annual amount of renewable energy on the average non-hydroelectric energy Metropolitan uses instead of the total CRA demand, the following table provides the annual allocation of allowances for Metropolitan that should be used in lieu of the Draft's Table 9-5:

Table 9-5: Allocation to Each Public Wholesale Water Agency

	Annual Allocation					
	2015	2016	2017	2018	2019	2020
Metropolitan Water District	496,268	153,110	148,256	154,387	147,019	139,993

<u>Summary</u>

Metropolitan believes this change will satisfy the goals of both CARB and Metropolitan. The alternative proposal will incentivize the acquisition of renewable energy while also mitigating Metropolitan's cost burden of Cap-and-Trade compliance. This will be accomplished by applying the same general methodology CARB has used for other entities while making appropriate modifications for Metropolitan's unique characteristics and is a fair and reasonable approach for CARB to adopt.

Thank you for your consideration of Metropolitan's comments on the 15-Day Discussion Draft.

Sincerely,

Jon C. Lambeck
Metropolitan Water District of Southern California