Straight Talk about Climate Change

By

Southern California Public Power Authority (SCPPA)

SCPPA Members: Cities of Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, Los Angeles, Pasadena, Riverside, Vernon and the Imperial Irrigation District

SCPPA and its publicly-owned utility (POU) members are participating in and supporting the California Air Resources (CARB) Board's AB 32 implementation process to assure success in reducing greenhouse gas emissions (GHG).

The two most effective strategies to implement AB 32 is maximizing energy efficiency and increasing the use of renewables in the generation mix. SCPPA member systems are committed to both of these strategies. Implementing AB 2021 assures the best energy efficiency products and programs are utilized. Increasing renewable supplies in the generation mix has been a priority of the SCPPA members for the last few years to not only meet renewable portfolio standards (RPS) goals but also to assure compliance with AB 32.

In process development CARB must exercise caution to assure:

- Money spent by SCPPA members is used for projects that directly result in reducing carbon emissions;
- Cap-and-trade or other mechanisms reminiscent of the energy crisis should not be required of systems meeting or exceeding their AB 32 goals;
- All programs and projects should demonstrate they are cost-effective through a transparent cost/benefit analysis; and,
- Rate increases to retail electricity rates should be minimized.

BACKGROUND:

Historically, California has been a leader in the development of energy conservation and efficiency programs, most recently with the adoption of AB 2021. The same is true of mandating the introduction of renewable resources in the generation mix through the adoption of Renewable Portfolio Standards (RPS). AB 32 puts California on the front lines of the global battle against climate change to reduce greenhouse gas (GHG) emissions.

SCPPA and its members have actively participated in the California Air Resources Board's (CARB) AB 32 implementation process, most recently in responses to the Draft Scoping Plan. We recognize the need to do more in response to the enormous challenges and health risks posed by global warming. As David Wright, City of Riverside Utilities Director and SCPPA President, stated; "SCPPA and its members continue to work closely with CARB to secure real, permanent and quantifiable emission reductions from our operations."

The best approach to fulfilling the AB 32 goals for the electricity sector is through <u>quantifiable and enforceable direct emission reductions</u>, achieved in the most environmentally sustainable manner and without risking system reliability.

Cap-and-trade should be used as a secondary method of compliance to the extent that direct emission reductions fall short of attaining the statewide emission reduction goal of 169 million metric tons (MMT). As demonstrated below, SCPPA's members can exceed AB 32's goal of reducing $CO2$ emissions to 1990 levels by 2020 through increased efficiency measures as outlined in AB 2021 and a 20% RPS standard.

Results are even better with a 33% RPS.

There is no need for a cap-and-trade system for the electricity sector to achieve the AB 32 goals. However, we are not opposed to such a system under certain conditions, the most important of which is assurance that funds will not be diverted from needed investments to reduce GHG emissions. There are also concerns that imposing a cap-and-trade program would impose needless costs on SCPPA members who should be allowed to use funds in the most cost effective way. Recognition must be given to the "cost effectiveness" test established in AB 32.

WE AGREE:

- ***Electricity Sector must do its fair share in complying with the GHG emission reduction of AB 32;***

- ***CARB's AB 32 process directives developed through an open public process are the best way to determine implementation policies for California;***

- ***Reductions to 1990 levels by 2020 is a reasonable goal;***

- ***Energy Efficiency is the highest priority (AB 2021);***

- ***Increasing RPS Goals for coal dependent utilities to 33% is possible; and***

- ***Coal-intensive utilities should direct funding for carbon footprint reduction measures.***

HOW CAN WE ACHIEVE AB 32 GOALS:

AB 32 recognizes that the most cost effective methods for reducing GHG emissions is through energy efficiency improvements and the use of more renewable energy supplies in the energy generation mix.

We agree.

To demonstrate how dramatically these two approaches impact the SCPPA members' AB 32 compliance, consider the examples shown below.

- **BASE CASE: Direct Regulations of Greenhouse Gas (no cap-and-trade, plus instituting AB 2021 Energy Efficiency mandates and a 20% RPS).**

  SCPPA members have worked closely with the California Energy Commission (CEC) on the AB 2021 implementation to assure that all the possible cost effective energy efficiency programs will be identified and delivery programs developed to gain the maximum benefits from energy efficiency. To date, SCPPA members have invested in excess of a quarter of a billion dollars on energy efficiency programs.

All SCPPA members have a RPS goal of at least 20%. LADWP, Burbank, Riverside and the Imperial Irrigation District have all adopted a goal of at least 33% by 2020. In recent years, the pace of acquiring renewable supplies for the SCPPA members has been impressive with well over 400 Megawatts added, composed of wind, geothermal, land fill gas, solar and small hydro. The June 8, 2008, KEMA, Inc. report prepared for the CEC entitled; "The Progress of California's Publicly Owned Utilities in Meeting the State's Renewables Portfolio Standard Requirements", states "… **the publicly owned utilities (POUs) have, thus far, brought more new renewable energy projects on-line than the state's three major investor owned utilities (IOUs). … POUs increased the POU-qualifying renewable content of their supply by 3.1 percent of statewide POU retail sales while the state's IOUs renewable energy deliveries, as a percentage of retail sales, actually declined over the same time span."** (Emphasis added)

In fact, a recent report issued by the California Public Utilities Commission (CPUC) projects that the three largest IOUs **will not meet the goal of receiving 20 percent of their energy from renewable resources by 2010.**

When the SCPPA members implement the energy efficiency programs and a 20% RPS, the modeling results show,

> **SCPPA members will have 2020 emissions that are 5-10% below the AB 32 1990 target levels**.

This case will result in need to increase rates an average of **28%**.

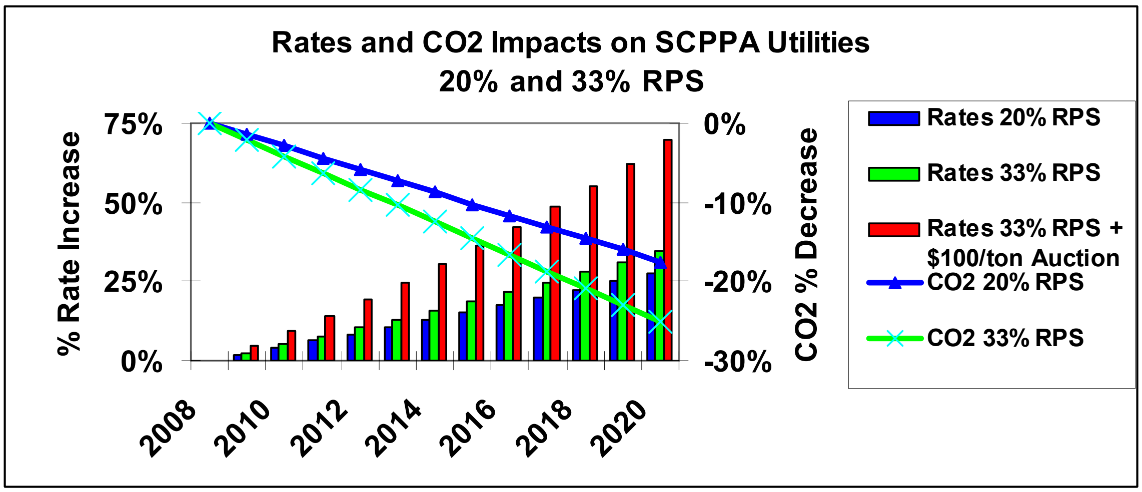
- **33% RPS CASE: Direct Regulations of Greenhouse Gas (no cap-and-trade, plus instituting AB 2021 Energy Efficiency mandates and a 33% RPS).**

Since the State is considering raising the mandated level for the RPS from 20% to 33% and some of the SCPPA members have already done so, it is important to see what the level of impact would be with regard to meeting (or in this case exceeding) the AB 32 goal and also what the rate impacts would be.

SCPPA members will have 2020 Emissions that are an additional 15-20% below the AB 32 1990 target levels.

This case will require rate increases of about **34%**.

It should be noted also that a recent CPUC report questions whether or not the IOUs can meet a 33 percent RPS by 2020.



CAP-AND-TRADE CONCERNS:

The CARB Draft Scoping Plan recommends pursuit of cap-and-trade for the four capped sectors, beginning with electricity and industry in 2012 and possibly including transportation (i.e. transportation fuels) and commercial/residential (i.e. natural gas) sectors by 2020. The Plan proposes to achieve a 35 MMT reduction in emissions by 2020 through a California-only market that is linked to other western states through the Western Climate Initiative (WCI). Compliance with a cap-and-trade program would require the surrendering of emission allowances equivalent to emissions for a given compliance period. With auctioning, an electricity sector entity would be required to buy at auction the emission allowances needed to cover all emissions associated with its generation or purchased energy. We are concerned that **allowance costs are undefined and revenues generated**

from cap-and-trade auctions would be redistributed in ways that are unknown at this time.

SCPPA members believe they must be allowed to make necessary investments in direct GHG reductions, **without revenues being diverted to State coffers or other entities via an auction of allowances since it will only increase the cost of compliance and hinder the development of cleaner resources.**

Studies performed by the CEC consultant shows that including the electric sector in a multi-sector **cap-and-trade program will be very expensive for the electric sector.**

If allowances were auctioned and cost \$100/ton CO2, electric sector "deliverers" would be required to pay approximately \$98 billion during the nine year 2012 to 2020 period, or **\$10.9 billion per year**, to buy allowances. The LADWP would be required to spend approximately \$1.5 billion for allowances in 2012 alone, 56% of the utility's projected total budget (excluding the cost of buying allowances) of \$2.7 billion. Other SCPPA members would face comparable increases.

If SCPPA members participated in the cap-and trade market;

> **<u>SCPPA members will have 2020 emissions identical to the 33% RPS case unless the market clearing price exceeds \$150/ton.</u>**
>
> The combination of a 33% RPS plus an auction for CO2 emissions at \$100/ton will be rate increases approximately **<u>70%</u>** above current levels.

CONCLUSION:

It is unreasonable for SCPPA members' customers to be subjected to the increased costs of implementing numerous energy efficiency programs as well as achieving 33% renewables (**<u>35% rate increases</u>**) that **<u>exceed</u>** the AB 32 targets and then be required to participate in a risky, untested cap-and-trade program that **<u>might not lead to additional GHG reductions</u>** but could **<u>raise rates by another 35%</u>**!

Proposed cap-and-trade schemes, as yet not clearly defined or thoroughly analyzed, could place the Electricity Sector at the same types of risks encountered in the “market will provide” systems during the infamous California energy crises. The same types of mistakes must be avoided. Administrative directives, energy efficiency and renewable targets, will assure SCPPA’s members exceed their responsibilities for making California’s air cleaner. There is no need for additional measures, like cap-and-trade that could prove risky and detrimental.

SCPPA and its members remain committed to AB 32 and achieving meaningful GHG emission reductions. Any plan must contain certain critical elements to achieve success. We recommend the following for consideration:

- ***Additional Evaluation Criteria:*** *Electric system reliability, rate stability, and investment in California’s communities should be added to the evaluation criteria as they are vital considerations for electricity sector stakeholders.*

- ***Public Process:*** *The Scoping Plan public review process is a crucial step in garnering and maintaining public support for AB 32 and we encourage the ARB to release the economic analysis for public review as soon as possible.*

- ***Revenues:*** *The collection, redistribution and use of revenues that are generated through potential cap-and-trade auctions, carbon fees, and public goods charges must be fully evaluated to ensure they serve the purpose of AB 32 in a manner that is both legal and equitable, does not result in wealth transfers or cost shifting between entities or sectors, or diversion of committed funds from GHG reductions.*

- ***Dual Regulatory Burden:*** *The Scoping Plan must avoid multiple tracks regulating emission sources in a manner that extracts additional revenues from California consumers without providing corresponding emission reduction benefits.*

- ***Federal Action on Climate Change:*** *The Scoping Plan should acknowledge and consider the interface and potential implications of federal regulatory and/or legislative action on climate change.*

- ***Early Voluntary Actions:*** *The Scoping Plan should be revised to include a discussion on voluntary early actions and how those will be acknowledged.*

• ***Cap-and-Trade:*** *Cap-and-trade must comply with requirements of AB 32 and be supported by economic and environmental analyses that show a cap-and-trade system will lead to lower compliance costs and can be achieved while maintaining environmental integrity.*

• ***Proportionality:*** *Each sector must take responsibility for their emissions. Electricity ratepayers must not be disproportionately burdened with the cost of emission reductions that are either attributed to other sectors or fail to be achieved by other sectors.*

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