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May 30, 2008

Kevin Kennedy
California Air Resources Board
1001 "I" Street
Sacramento, California 95812

Re: Northern California Power Agency Comments on May 19 Scoping Plan
Policy Scenarios Workshop

Dear Kevin:

The Northern California Power Agency¹ (NCPA) appreciates the opportunity to offer these comments to the California Air Resources Board (CARB) in response to the AB 32 – California Global Warming Solutions Act, Scoping Plan Workshop Series – Policy Scenarios, May 19, 2008 (May 19 Workshop).

Modeling Should be Verified and Complete

NCPA is sensitive to the fact that it is difficult to model the complexities inherent in the AB 32 implementation process, and understands that those doing the modeling need additional time in order to ensure that the outcome of the modeling is as accurate as possible. However, NCPA is also concerned that the rush to complete the modeling – which has already been delayed several times, will result in flawed or incomplete results. If the intended use of the models is to evaluate the models relative to each other, there are no checks to guard against the possibility that the same input flaws are not carried across all three modeling alternatives. This is exemplified by the fact that the Energy 2020 model's assumptions regarding crude oil and natural gas prices include benchmarks that are far below current and anticipated price trends, thus skewing all of the eventual results based on that one input.²

¹ NCPA members include the cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, and Ukiah, as well as the Bay Area Rapid Transit District, Port of Oakland, the Truckee Donner Public Utility District, and the Turlock Irrigation District, and whose Associate Members are the Plumas-Sierra Rural Electric Cooperative and the Placer County Water Agency.

² Workshop presentation, Energy 2020 Business-as-Usual Case, Slide 7, Base Case Economic.

CARB should be careful about potentially relying too much on specific modeling results as it formulates initial Scoping Plan recommendations. This is not raised as a direct criticism of the actual modeling, but rather to highlight the fact that both the modelers and CARB have acknowledged that the modeling is “even more challenging than anticipated,” and acknowledgements that the modeling does not necessarily reflect the most current or accurate information. CARB should proceed with the utmost caution in basing any final analysis on the outcome of the modeling alone – or even in giving too much weight to the modeling conclusions.

NCPA looks forward to seeing the results of the final modeling in July, and working with CARB staff and other stakeholders in reviewing those results and determining the extent to which they can be utilized to make a reliable final recommendation to the CARB board regarding the ultimate preferred approach for implementing AB 32 to be included in the October draft of the Scoping Plan.

The Scoping Plan Should Include Distinct Recommendations Regarding the Total Amount of Emissions Reductions for the Electricity Market.

Entities in the electricity sector must know their total compliance obligation in order to determine the most efficient and cost-effective means by which to achieve that stated goal. Until entities know the total emissions requirement within their sector, as well as the total emissions reduction for each entity within the sector, the cost impacts and information set forth in any modeling is speculative.

During the May 19 Workshop, staff noted that one of their objectives was to “assure that emissions reductions required of each sector are *equitable*.”³ However, staff specifically noted that “equitable” does not mean “equal.” It was acknowledged that overall, the AB 32 levels could be achieved if each sector reduced their emissions by approximately 30%, yet it was also acknowledged that 30% reductions will not be required of each sector. Accordingly, there are some sectors, such as the electricity sector, that will likely be called upon to achieve emissions reductions in excess of their fair share. And this we believe is likely to occur, despite the fact that the electricity sector is currently already below the benchmark 1990 emissions level referenced in AB 32. As noted in a paper prepared for an informational hearing before the Senate Energy, Utilities and Communications Committee, the electricity sector’s 1990 GHG emissions levels are actually higher than current GHG emissions levels, despite a 28% increase in electricity use.⁴

CARB has acknowledged that there are certain criteria that should be used to determine a preferred approach for achieving the objectives of AB 32; in addition to assuring that the emissions reductions required of each sector are equitable, other primary criteria include the

³ Workshop presentation, Slide 5, Plan Objectives; Slide 19, Criteria for Crafting a Preferred Approach (emphasis added).

⁴ Senate Energy, Utilities and Communications Committee, Information Hearing, AB 32 Implementation: Understanding a Cap and Trade System, May 21, 2008, *Carbon Trading Backgrounder Paper*. The Paper notes that 1990 electricity sector emissions levels were at 111 MMT, while 2008 levels are 108 MMT.

ability to reach the target for 2020, maximization of economic benefits, minimization of economic harm, and providing leadership and influence to other governments.⁵ Discussed in the context of determining an overall preferred approach for statewide emissions reductions and AB 32 implementation, staff also noted that these criteria are also applicable in determining the reduction levels that should be required of each sector. However, while the total costs of GHG reductions will greatly and directly impact California's electricity consumers, staff noted that the cost-effectiveness of its preferred approach – and the total reduction level for each sector – will need to be balanced against such factors as “broader societal benefits, complimentary policy goals, and sector equity.”⁶

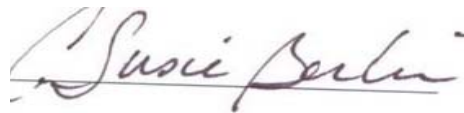
The majority of the modeling publicly discussed by the state agencies to date has been done in the electricity sector. Combined with the fact that there are easily identifiable and tangible means by which to assign reduction targets to almost all aspects of the electricity sector, there is a very high probability that a discussion of these non-precise criteria could lead to the conclusion that it is “equitable” to require a far greater percentage of the state's overall GHG emissions reductions from the electricity sector. It is imperative that the final recommendation on equitable emissions reductions for each sector not take the “easy route,” and assume that the electricity sector can shoulder more than a proportional share of the total emissions reductions called for in AB 32. CARB's analysis of these criteria must take into account the total feasible and cost-effective reductions that can be *fairly* achieved by the electricity sector. The Draft Scoping Plan should include a *total emissions reduction requirement* for the electricity sector.

CONCLUSION

NCPA appreciates the resources that CARB staff has dedicated to development of the Scoping Plan, including putting forth recommendations for proposed program design scenarios, and appreciates the opportunity to provide these comments to CARB in response to those initial discussion items

If you have any questions regarding these comments, please do not hesitate to contact the undersigned or Scott Tomashefsky of NCPA at 916-781-4291 or scott.tomashefsky@ncpa.com.

Sincerely,
MCCARTHY & BERLIN, LLP

A handwritten signature in dark ink, appearing to read "Susie Berlin", with a horizontal line underneath.

C. Susie Berlin
Attorneys for the Northern California Power Agency

⁵ May 19 CARB Workshop, Workshop presentation, Slide 19, Criteria for Crafting a Preferred Approach.

⁶ May 19 CARB Workshop, Workshop presentation, Slide 24, Cost Effectiveness.