HANNA AND MORTON LLP
A LIMITED LIABILITY PARTNERSHIP INCLUDING A PROFESSIONAL CORPORATION
LAWYERS
444 SOUTH FLOWER STREET, SUITE 1500
LOS ANGELES, CALIFORNIA 90071-2916
TELEPHONE: (213) 628-7131
FACSIMILE: (213) 623-3379
WEBSITE: www.hanmor.com

NORMAN A. PEDERSEN
DIRECT DIAL: (213) 430-2510
EMAIL: npedersen@hanmor.com

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Mr. Robert DuVall
Air Pollution Specialist
Air Resources Board
1001 "I" Street
P.O. Box 2815
Sacramento, California 95812

Re: Ideas to Reduce Greenhouse Gas Emissions

Dear Mr. DuVall:

The Southern California Public Power Authority (SCPPA) respectfully submits this response to the *Notice Requesting Public Input on Ideas to Reduce Greenhouse Gas Emissions* issued by the Air Resources Board ("ARB") on August 31, 2007.

SCPPA is a joint powers authority. Twelve publicly owned utilities ("POUs") are members of SCPPA: Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, Los Angeles Water and Power, Imperial Irrigation District, Pasadena, Riverside, and Vernon. These retail electricity providers serve, in aggregate, over 2 million customer meters and a population of over 5 million people. SCPPA members own or control over 9,000 megawatts of electric generation capacity.

SCPPA and its members are already aggressively pursuing greenhouse gas ("GHG") reduction initiatives. This comment describes some of these initiatives.

SCPPA and its members anticipate that they will be required to expand their GHG emission reduction efforts substantially in order to attain AB 32 GHG reduction goals. The cost that SCPPA member ratepayers will be required to absorb to reduce electric sector GHG emissions should be taken into account as the ARB considers whether to require retail electricity providers to pay for GHG emissions allowances.

Additionally, retail electricity providers are going to be assisting other sectors, particularly, the transportation sector, to reduce GHG emissions. The retail providers will be assisting other sectors while they are simultaneously striving to reduce electric sector emissions. In fashioning its Scoping Plan, the ARB should address how the electric sector is to accommodate the increased load that the electric sector will be asked to serve in order to assist other sectors while the electric sector is simultaneously striving to reduce its own GHG emissions.

Lastly, SCPPA opposes unjustified proposals to shift the costs of reducing the GHG emissions of other sectors to the electric sector.

I. EFFORTS BY SCPPA AND ITS MEMBERS TO REDUCE GHG EMISSIONS.

SCPPA members tend to own or control electrical generation resources that are adequate to assure full and reliable service to the customers within their service territory. As a result of geographical and historical circumstances, SCPPA and its members are encumbered by electrical generation resources that are substantially carbon based. Currently, SCPPA member resources are 47 percent coal and 29 percent gas. Nuclear is nine percent, renewable resources are six percent, hydro is five percent, and unassigned purchases are four percent of the resource mix.

Reliance by SCPPA members on coal resources, primarily the Intermountain Power Project in Utah and the San Juan Project in New Mexico, is a legacy of the 1970s. The national policy at that time was to encourage the use of coal, an abundant domestic energy resource. In 1978, Congress adopted the Powerplant and Industrial Fuel Use Act ("PIFUA"). The Act prohibited development of new gas-fired baseload resources. When confronted by the need to add capacity and the unavailability of hydroelectric options due to political and geographic circumstances, SCPPA and its members resorted to coal-fired facilities located in nearby western states, consistent with PIFUA and national policy. The addition of the coal-based resources was driven by a combination of legal, political, geographical, and economic factors. The global warming consequences of such resources were not fully understood at the time.

SCPPA plans to fund studies to investigate CO_2 sequestration that would capture emissions from coal-fired units. A Request for Proposals was issued in June 12, 2007. SCPPA hopes that the sequestration studies will make continued operation of coal-fired resources consistent with attaining GHG reduction goals.

In the meantime, SCPPA and its members are vigorously pursuing other GHG reduction strategies. The SCPPA members have already spent nearly $800 million from 1997 through 2006 on public benefits programs, with the highest percentage (34 percent or $262 million) being spent on energy efficiency. The cost of new and expanded end-use efficiency programs is going to be much greater in the future.

In addition to energy efficiency and demand reduction measures, the SCPPA members are aggressively adding renewable resources. SCPPA is currently procuring roughly 500 MW of wind energy, 200 MW of geothermal energy, 100 MW of solar-thermal energy, and 30 MW of biomass-based energy for the benefit of its members**.** The cost of these resources is projected to be approximately $267 million *per year*. SCPPA is also investigating an integrated solar thermal system to displace coal use at San Juan Project in New Mexico. Individual SCPPA members are pursuing their own renewable projects apart from SCPPA.

Although expenditures on renewable resources by SCPPA and its members are already significant, expenditures are likely to escalate substantially in the future. SCPPA members have embraced the goal of obtaining 20 percent of their electricity supply from renewable resources by 2020. Now, they are in the process of adopting even more ambitious goals. For example, Los Angeles has adopted goals of 20 percent renewables by 2010 and 35 percent by 2020. Burbank, Banning, and Riverside have adopted the goal of 33 percent renewables by 2020.

Consistent with the SCPPA members' commitment to adding renewable resources, SCPPA is undertaking substantial transmission projects in order to bring renewable energy to load centers in southern California. The Greenpath North Transmission Project is a 1,200 MW transmission line from the Imperial Valley to Los Angeles that is being designed to import geothermal energy. The Southern Transmission System upgrade would add 480 MW of capacity from Utah to Los Angeles to import wind energy. The Greenpath transmission line is projected to cost more than $335 million plus financing costs. The Southern Transmission System upgrade is projected to cost $90 million plus financing costs.

The massive costs that SCPPA members' ratepayers will have to absorb in order to attain GHG emission reduction goals should be kept in mind when ARB considers how to allocate GHG emission allowances in its Scoping Plan. It would be punitive to require SCPPA members' ratepayers to bear *both* the massive cost of shifting from their historical reliance carboniferous resources *and* the cost of acquiring allowances through an auction. Assuming an annual cost of \$25 CO_2/ton, SCPPA members would have to expend nearly \$600 million annually to buy emission allowances. The cost of emission allowances would increase electricity rates and consumer bills substantially. The allowance-driven rate increases would be *additional* to the rate increases that will be needed to pay for new and expanded energy efficiency programs, new low carbon and non-carboniferous resources, and associated transmission capacity that will be needed for the SCPPA members to meet GHG reduction goals.

The consequence of requiring the SCPPA communities to spend hundreds of millions of dollars for auctioned allowances would be likely to result in a wealth transfer from the SCPPA communities to others in the state. The money spent for allowances might be reallocated without regard to who contributed the money. For example, the Market Advisory Committee ("MAC") issued a report to ARB on June 30, 2007, proposing that auction proceeds be directed to a wide range of activities such as promoting end-use efficiency, increasing assistance to low-income customers, and reducing state taxes. MAC Recommendations at 56-57. Using auction proceeds for these purposes would be likely to result in a wealth transfer from some retail providers to others that are less reliant on carboniferous resources. Many of the net recipients of auction proceeds would be low-rate utilities that, due to their geographical location, have had historical access to low-cost state and federal hydropower resources that were and are unavailable to SCPPA members.

A wealth transfer from the communities that are most challenged to phase out their reliance on carbon-based resources to those that are less challenged would be unfair, inequitable, and unnecessarily punitive. Imposing the cost of auctioned allowances on top of the cost of GHG reduction measures could produce rate shock that would undermine public acceptance of GHG reduction goals regardless of how wholeheartedly SCPPA and its members embrace achievement of those goals.

II. SCPPA ASSISTANCE TO SECTORS BEYOND THE ELECTRICITY SECTOR.

In addition to undertaking costly measures to reduce electric sector GHG emissions, SCPPA members will most likely be required to add substantial amounts of incremental electrical load in order to assist other sectors in reducing their GHG emissions. The electric sector is likely to be required to absorb additional electrical load in order to assist, particularly, the transportation sector. Transportation accounts for approximately 40 percent of the GHG emissions in California currently. Clearly, if AB 32 GHG reduction goals are to be attained, it will be necessary for the transportation sector emissions to be substantially reduced from current levels.

A likely option for achieving transportation sector emission reductions by 2020 will be to shift a significant percentage of California vehicular usage from fossil fuel to electricity. Plug-in hybrids are currently the most likely foreseeable source of increased electrical load that may result from the effort to reduce transportation sector emissions. Electricity retail providers are also likely to add load to support GHG reduction efforts at port facilities.

SCPPA members are going to be challenged to meet AB 32 emission reduction goals for 2020 even absent additions of electrical load to assist emission reduction by other sectors. In fashioning its Scoping Plan, the ARB should address how the electric sector is to accommodate the increased load that the electric sector will be asked to serve in order to assist other sectors while the electric sector is simultaneously striving to reduce its GHG emissions.

III. COST SHIFTING FROM OTHER SECTORS TO THE ELECTRIC SECTOR SHOULD BE AVOIDED.

SCPPA urges ARB to avoid shifting the cost of emission reductions by other sectors to the electric sector. Cost shifts have already been proposed. For example, on August 31, 2007 San Diego Gas & Electric Company ("SDG&E") and Southern California Gas Company ("SoCalGas") proposed a "Climate Action Initiative" to the California Public Utilities Commission ("CPUC") in Application ("A.") 07-08-031. In its application, SoCalGas proposes "clean transportation initiatives" that generally consist of programs that would facilitate the conversion of gasoline and diesel powered vehicles to natural gas. SDG&E and SoCalGas request:

- Authority to ratebase natural gas vehicle ("NGV") transportation fueling facilities at government-owned sites.

- $1.5 million per year of incremental funding to construct NGV infrastructure, including fueling facilities at government-owned sites, and to demonstrate small scale liquefied natural gas ("LNG") facilities.

- $1.75 million per year of incremental funding to expand NGV RD&D programs to include demonstration of a hydrogen/compressed natural gas ("Hydrogen/CNG") blend fueling station, study and demonstration of a new heavy-duty natural gas engine, demonstration of CNG/hybrid vehicle technology, and development and optimization of natural gas engines and chassis design for medium-duty fleet vehicles.

- $3.0 million per year of incremental NGV funding to expand customer education and information programs.

- $1.455 million per year of incremental funding to support the demonstration, development, and use of zero-emission electric vehicles ("EVs") as well as activities designed to increase customer acceptance of EVs.

A.07-08-031 at IV-1 through IV-2. Additionally, SFG&E and SoCalGas propose new CNG fueling facilities:

> To support expanded use of NGVs in SDG&E and SoCalGas' fleet, as well as to facilitate a transition in the market place toward increased use of NGVs, SDG&E and SoCalGas propose to build and operate 10 new public access CNG fueling stations on company bases over a five-year period. These refueling stations will be used both to support SDG&E and SoCalGas' CNG fleet conversion program to support customer fleets. SDG&E and SoCalGas are requesting $2.52 million per year in capital, and $50,000 for O&M expenses from 2009 through 2013 to support this proposal.

A.07-08-031 at V-13. SDG&E and SoCalGas propose to recover the costs of their proposed new or expanded NGV and CNG programs so as to recover the costs, in part, from electric utilities that take gas transportation service from SDG&E and SoCalGas. A.07-08-031, VIII-5. SCPPA urges the ARB to address in the Scoping Plan the need for each GHG emission sector to bear cost responsibility for its own GHG reductions.

It would be inappropriate to ask the already beleaguered electric sector to bear the costs associated with promoting NGV usage to assist emission reductions in the transportation sector. Each sector should be asked to bear the cost of emission reductions associated with that sector. The transportation sector should be required to bear the cost of the NGV-related activities of SDG&E and SoCalGas through rates charged for NGV and CNG service. The cost of the NGV and CNG promotional activities proposed by SoCalGas and SDG&E should not be spread to an electric sector which is going to be required to bear its own substantial costs.

SCPPA appreciates the opportunity to submit these comments and looks forward to further participation in the ARB effort to develop a Scoping Plan by the end of 2008.

Respectfully submitted,

Norman A. Pedersen
Attorney for the **SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**

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