



# Central Contra Costa Sanitary District

Protecting public health and the environment

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California Air Resources Board  
Clerk of the Board, Air Resources Board  
1001 I Street, Sacramento, CA 95814

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## Comments on the California Air Resources Board's October 28, 2010 Proposed Regulation to Implement the Cap-and-Trade Program under AB 32

To Whom It May Concern:

Central Contra Costa Sanitary District (the District) appreciates the opportunity to provide comments on the California Air Resources Board's (CARB) latest draft of the Cap-and-Trade Program for California. The District also appreciates the time your staff has taken to meet with our staff to hear our concerns and answer our questions about the current draft of the Cap-and-Trade Program. However, we are concerned with the way the current draft of the Cap-and-Trade Program will impact our ratepayers and felt it was important to provide you with our input on how Cap-and-Trade could be modified to temper the financial impacts to public agencies regulated under the industrial sector.

The District is a public agency that provides wastewater collection and treatment for approximately 462,000 people in Central Contra Costa County. The District's wastewater treatment plant, an essential public facility located in Martinez, has a permitted average dry weather flow of 53.8 million gallons per day, and has been and continues to be a leader in efficient energy utilization. The District combusts biosolids formed during the wastewater treatment process, supplemented by renewable decomposition gases from a closed landfill, and recovers about 40% of the energy value as 150 psig steam. The District also operates an on-site, high-efficiency combined heat and power (CHP) facility that burns natural gas to produce electricity for on-site usage and associated heat recovery to generate 150 psig steam. The steam is then used to directly operate mechanical blowers that supply air to the District's secondary biological treatment process. The District has worked closely with PG&E over the years to increase efficient use of energy within our operations, such as installing variable frequency drives on constant-speed electric motors, installing insulation on boilers, improving efficiency in the treatment plant's aeration system, completing lighting retrofit projects and installing motion detectors for the lights in our various office buildings.

As an agency with a core mission of protecting the environment, the District supports the concept of reducing greenhouse gas emissions. However, CARB's proposed Cap-and-Trade Program will substantially increase the District's compliance costs in a very short period of time. These added costs will ultimately be borne by the District's ratepayers, California residents whose financial impacts are to be carefully considered in the implementation of this regulation. Our comments on this draft regulation are as follows:

Transition assistance is needed for public agencies regulated within the industrial sector.

CARB's draft Cap-and-Trade regulation provides two rationales for allocating allowances to industrial sector facilities: transition assistance and leakage prevention. According to the Initial Statement of Reasons, CARB intends to provide transition assistance to industrial facilities to prevent "sudden or undue short-term economic impacts" during the Cap-and-Trade Program's initial compliance periods. The District agrees with CARB's rationale for transition assistance, but is concerned that under the Proposed Regulation Order, transition assistance will not be extended to public agencies regulated under the industrial sector. Public agencies, including the District, are no less subject to severe financial impacts during the initial compliance periods than are other facilities regulated in the industrial sector.

Therefore, we feel that public agencies that fall within the industrial sector should be eligible for industry assistance, in the form of free allowances, and be included in Table 8-1: Industry Assistance, page A-76 of the draft regulations. Alternatively, another approach that would be workable for public agencies is for CARB to provide public agencies, regulated in the industrial sector, the opportunity to achieve AB 32 compliance by purchasing GHG offsets to cover only those emissions over the industrial cap level. This incremental approach would be less shocking to public agency operating budgets.

The draft Cap-and-Trade Program does little to incentivize efficient CHP facilities. The District recommends free allowances or a reduction in the compliance obligation for emissions from high-efficiency CHP systems.

The AB 32 Scoping Plan calls for the state to increase CHP energy generation by 30,000 GW-hr, yet the draft Cap-and-Trade regulation provides no incentives for development or expansion of CHP. In fact, by treating CHP facilities as any other combustion source and therefore creating a compliance obligation for these facilities, CARB is likely to discourage industries, including wastewater treatment facilities, from installing or expanding efficient CHP systems.



For example, at the District, staff has been considering upsizing our CHP facility to a unit that produces approximately 30% more power with only 10% additional fuel (natural gas) – a project that would be a net environmental benefit. With the compliance burden that AB 32 Cap-and-Trade would assign to such an expansion, the return on investment may not warrant such a project. Instead, we will likely draw more of our power from the grid, adding more demand and increasing the number of renewable energy projects that power utilities are complete to meet the State's renewable energy portfolio goals.

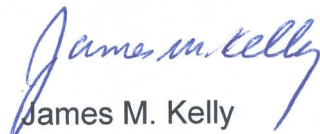
We therefore suggest that CARB reincorporate the incentive for efficient CHP units by either including efficient CHP in Table 8-1: Industry Assistance, page A-76 of the draft regulations, making such facilities eligible for industry assistance in the form of free allowances, or by reducing the compliance obligation for GHG emissions from high-efficiency CHP systems by giving GHG credit for the steam captured for useful work, as was the plan in the previous version of Cap-and-Trade.

There are very limited opportunities in the current draft of Cap-and-Trade for a facility to earn offset credits.

In considering our strategy to comply with AB 32, we are surprised at how few options there are for generating GHG offsets under the draft Cap-and-Trade Program. For example, if the District were to shut down our current CHP facility, we would reduce our anthropogenic GHG emissions by approximately 19,000 MTCO<sub>2</sub>e. Under the current draft of the Cap-and-Trade Program, this GHG emission reduction would not be eligible for offset credits, because there is not an approved offset protocol for this situation. So, we are provided with no incentive to eliminate this combustion source, which would be one of the ways for CCCSD to comply with AB 32.

Thank you for the opportunity to comment on this draft regulation. Please contact me at (925) 229-7386 if you have any questions regarding these comments.

Sincerely,

  
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General Manager

JMK:ml

cc: Melody LaBella, Environmental Services Assistant Engineer