THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Office of the General Manager

September 15, 2014

SENT VIA ELECTRONIC MAIL

Richard R. Corey
Executive Officer
Air Resources Board
1001 I Street
Sacramento, California 95814

Re: Air Resources Board Proposed Amendments to Regulations on the: California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms, Mandatory Reporting of Greenhouse Gas Emissions, and the Cost of Implementation Fee

Dear Mr. Corey:

Thank you for the opportunity to provide comments on the proposed amendments to the subject three sets of regulations for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms (Cap-and-Trade), Mandatory Reporting of Greenhouse Gas Emissions (MRR), and the Cost of Implementation Fee (COI Fee). The Metropolitan Water District of Southern California (Metropolitan) has reviewed the Air Resources Board's (ARB's) proposed regulatory amendments which ARB released on July 29, 2014, and offers the following comments on the regulatory amendments.

Background

As the nation's largest provider of drinking water, Metropolitan distributes water from the Colorado River and Northern California to 26 member agencies (cities and water districts), and supplies more than one-half of the water used by approximately 19 million people in the 5200 square-mile coastal plain of Southern California. Metropolitan's mission is to provide its member agencies with adequate and reliable supplies of high quality water to meet present and future needs in an environmentally and economically responsible way. In order to bring Colorado River water to Southern California, Metropolitan, on occasion must directly import wholesale electricity for the sole purpose of operating the electrical pumps on the Colorado River Aqueduct.

Because Metropolitan has a significant regulatory and financial stake in the Cap-and-Trade regulations, and the related two regulations for the MRR and COI Fee, Metropolitan has actively engaged in the development of these rules from the inception of the ARB rule-making processes.

Metropolitan incurs Cap-and-Trade related costs through the acquisition of allowances to cover the greenhouse gas (GHG) emissions associated with its imported supplemental non-hydroelectric energy. Metropolitan reports its imported electricity on an annual basis to ARB's electronic on-line reporting system, and subsequently pays a COI fee to ARB for the administration of the AB 32 programs.

In addition to meeting ARB's regulatory compliance requirements, Metropolitan is fully committed to doing its part to reduce its energy use and GHG emissions, and supports ARB's efforts to achieve the statewide goals of reducing GHG emissions. Metropolitan owns and operates 16 small hydroelectric plants on its distribution system, with a combined generating capacity of approximately 131 megawatts (MW). In 2009, Metropolitan installed a 1 MW solar power facility at its Skinner Water Treatment Plant (Skinner), the fourth largest water treatment plant in the United States. Solar power has replaced approximately 20% of the energy supplied by Southern California Edison at Skinner. On August 9, 2014, Metropolitan's Board of Directors (Board) unanimously approved funding to proceed with two new solar projects at its Weymouth and Jensen Water Treatment Plants which will expand solar generation at Metropolitan's treatment plants from the current 1 MW to a total of 5 MW.

On June 25, 2014, Metropolitan provided the attached letter to Chair Nichols to highlight Metropolitan's solar projects, as well as other energy and GHG reduction actions that Metropolitan has already implemented and is continuing to put into effect. Such actions include, but are not limited to pipeline hydroelectric plants, various water conservation and efficiency improvements, energy audits, and use of high energy efficient pumps and other equipment.

Metropolitan's Comments on the Proposed Amendments to the Cap-and-Trade Regulation Allowance Allocation

Metropolitan appreciates the willingness and efforts of ARB staff to address cost impacts on publicly-owned wholesale water utilities and their ratepayers. Metropolitan has reviewed the latest revision of Section 95895 for the proposed allowance allocation to public wholesale water agencies. Metropolitan has noted that although ARB has provided a slight increase in the allowance allocation to Metropolitan, it is only about 40% of what Metropolitan actually needs to fully mitigate the cost impacts of the Cap-and-Trade regulation to its customers, the 26 member agencies mentioned previously. According to ARB, the proposed changes take into account the application of an updated allocation calculation methodology, and the number of allowances is based on the compliance obligation for electricity used to convey water. ARB has proposed only a slight adjustment from the October 2013 Cap-and-Trade regulations, and continues to apply two inappropriate assumptions pertaining to large hydroelectric power and the renewable portfolio standard (RPS) to the methodology that was utilized, resulting in a much lower allocation to Metropolitan, as a public wholesale water agency, than is actually warranted.

In Metropolitan's previous comment letters on the Cap-and-Trade regulation to ARB on October 22, 2013 and April 3, 2014, and in its oral testimony at ARB meetings and hearings, Metropolitan discussed its concerns associated with the misapplication of the large hydroelectric and RPS percentages in ARB's methodology. Additionally, in its April 2014 comment letter, Metropolitan staff recommended an alternative allocation approach to take into account the fact that Metropolitan is not an electric distribution utility (EDU), but is a public wholesale water agency with characteristics that are different and unique from EDUs. Metropolitan requests that ARB staff revisit these two previous comment letters, and reconsider additional revisions to the allocation methodology to address Metropolitan's special circumstances and provide an increase in the allowance allocation.

As stated in Metropolitan's April 3rd comment letter, Metropolitan proposes the following allocation schedule:

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>Registration with ARB</u>

In Section 95830 (f) (1) of the proposed amendments, ARB has provided some administrative flexibility for regulated entities by allowing for annual updates to certain registration information in lieu of the requirement to provide updates within 30 days or quarterly. In reviewing these proposed amendments, Metropolitan understands that they apply to updates of the list of employees with market knowledge, but not to changes in the names of an entity's directors and officers. Metropolitan thanks ARB for extending the timeframes for updating certain information in CITSS, and for reducing the associated regulatory burden of the more frequent updates. Metropolitan requests that ARB also extend the timeframe for updates to an entity's directors and officers to an annual requirement. Metropolitan often experiences changes in its Board membership, and an annual requirement will align the reporting requirements and provide additional administrative flexibility for Metropolitan and other similarly situated entities.

<u>Comments on MRR and COI Fee</u>
<u>Definition of Public Wholesale Water Agency</u>

In the October 2013 revision to the Cap-and-Trade regulations, ARB included a definition specific for public wholesale water agency which recognizes that Metropolitan is not an EDU, and requires a new definition that more accurately reflects its actual activities as a public water agency. This definition of public wholesale water agency, which should refer to the Statutes of 1969, instead of the Statutes of 1960, aligns with Metropolitan's inclusion in and use of the NAICS Code for Water Treatment and Distribution in its MRR submittals. Although ARB states that the proposed amendments to the regulations for Cap-and-Trade, MRR, and COI Fee are designed to align definitions, ARB has not included the definition of public wholesale water agency in the MRR and COI Fee regulations. Metropolitan requests ARB to add the definition of public wholesale water agency to both the MRR and COI Fee regulations.

Thank you for your consideration of Metropolitan's comments on the proposed regulatory amendments.

Sincerely,

Jeffrey Kightlinger
General Manager

JB:reg

Attachment (1)

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Office of the General Manager

June 25, 2014

Ms. Mary D. Nichols, Chair
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Dear Ms. Nichols:

Thank you for your continued willingness to discuss Metropolitan's obligations under the Cap-and-Trade regulations. These conversations have focused on Metropolitan's obligations for importing some power for use on its Colorado River Aqueduct and not on Metropolitan's management of its energy usage within our service area.

In our recent conversation, it appeared as if some the actions Metropolitan is taking to reduce GHG emissions were unknown to you and CARB staff. I wish to assure you that Metropolitan is fully committed to doing its part in reducing greenhouse gas (GHG) emissions and supports CARB's efforts to achieve the goal of reducing GHG emissions to 1990 levels by 2020, with further reductions to follow. I thought it would be beneficial if I highlighted a few of these actions for you.

Solar Power

Metropolitan has been actively assessing the applicability of solar power installations at its five water treatment plants in southern California. In 2009 we installed a 1 MegaWatt (MW) solar power facility at the Skinner Water Treatment Plant, the fourth largest water treatment plant in the US. Solar power has replaced approximately 17% of the energy supplied by Southern California Edison (SCE) at Skinner.

In August, I will present to Metropolitan's Board, two new projects that will expand solar generation at Metropolitan's treatment plants from the current 1 MW to a total of 5 MW. Metropolitan proposes to install 3 MW of solar power at its Weymouth Water Treatment Plant, the eighth largest treatment plant in the US. The solar power facility will provide more energy than the plant utilizes, allowing the excess energy to be credited to another Metropolitan facility. The retail energy supplier is SCE.

The other project is 1 MW of solar power at the Jensen Water Treatment Plant in Los Angeles. Jensen is the second largest water treatment plant in the US. Solar power will supply over 20% of the plant's energy needs. The retail energy supplier is the Los Angeles Department of Water and Power.

These two projects are estimated to cost nearly $18 million and will be funded by Metropolitan.

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Pipeline Hydroelectric Power Plants
Metropolitan has constructed 16 Hydroelectric Power Plants (HEP) that recover the energy from the water flowing through its pipelines in southern California. The HEPs produce more than five times the total amount of energy needed by Metropolitan's facilities in its service area, including treatment plants, office buildings and small pumping plants (not the Colorado River Aqueduct pumps). The production of energy by the HEPs does not result in any GHG emissions and the energy is certified as renewable by the California Energy Commission.

Recently, treatment process changes at the Diemer Water Treatment Plant in Orange County resulted in the Yorba Linda HEP becoming inoperable. Rather than abandoning this source of renewable energy, Metropolitan is spending over $17 million of its own funds to upgrade and rebuild the facility, including the installation of a new turbine and generator. Once complete, the Yorba Linda HEP will retain its 5 MW rating and continue producing GHG-free energy.

Hybrid Vehicles
Metropolitan has a diverse fleet of vehicles to assist in the operation and maintenance of its water system that is spread over the 5200 square miles of its service area. Of the 164 sedans in the fleet, over 40% are hybrids, reducing the amount of gasoline consumed and the resulting GHG emission. Each hybrid vehicle achieves nearly twice the MPG as the standard sedans.

Water Conservation and Efficiency Improvements
As the 2005 CEC report on California's Water-Energy Relationship noted, over 14% of the electrical energy used in California is associated with water-related activities by the consumer or end user. Another 5% is associated with Water Sector activities such as conveyance, treatment (including waste water) and distribution. Therefore, it is much more effective to increase efficiency and conservation as a strategy to reduce GHG emissions associated with the <u>entire</u> water cycle. Metropolitan has recognized this, and since 1991, has invested over $333 million to develop or fund water conservation programs. In addition, since 1982 Metropolitan has funded more than $449 million in recycled water and groundwater recovery projects. The water conservation and recycled programs support the effort to achieve the required 20% per capita reduction in water use by the year 2020.

Colorado River Aqueduct Energy
Metropolitan has always been concerned with the amount of energy needed to move water on the Colorado River Aqueduct (CRA). Metropolitan was one of the original contractors for energy from the Hoover Dam and paid one-half of the cost of the power plant at the Parker Dam. Today, on average, clean energy from the Hoover and Parker Dams make up over 70% of the energy needs of the CRA.

Metropolitan and the other contractors for Hoover energy, pay the US government for the cost of operating, upgrading and maintaining the dam and power plant. The contractors have been extremely involved in working with the Bureau of Reclamation to modernize and improve the equipment to increase energy production even as the elevation of Lake Mead has declined due to the multi-year drought on the Colorado River. Producing more energy from Hoover Dam means Metropolitan has to buy less energy from other sources that would likely have associated GHG emissions. The installation of a new control system, stainless steel wicket gates, pressure relief valves and wide-head turbines have allowed Hoover to continue producing large amounts of energy even as the reservoir storage has continued to decline. Metropolitan has paid nearly $12 million for the above actions to improve the energy production at the Hoover Dam and reduce the need for energy from other sources for the CRA.

Land for Renewable Energy Development

As the owner of vacant land in southern California and near the Colorado River, Metropolitan responded to requests for access to some of this land for potential renewable energy development by offering option agreements to interested developers. At this time there continues to be progress made by a solar power developer on a potential facility near the City of Hemet. Another site near Blythe, initially had significant interest from potential developers, but the interest has declined as large solar projects in the desert areas have experienced difficulties obtaining contracts for the energy that would be produced.

Other Metropolitan Actions

In addition to the projects described above, Metropolitan continues to implement miscellaneous actions at its various facilities that result in reduced energy usage and contribute to a reduction in GHG emissions. These actions include the use of equipment that exceeds the minimal requirements of Title 24 for new or replacement equipment, energy audits and associated actions that improve energy efficiency, and the testing and maintenance of the multiple pumps used at water treatment plants. Individually these actions may result in minimal energy efficiency improvements; however, collectively they can produce tangible results and are a further indication of Metropolitan's commitment to reducing GHG emissions.

I hope this list of actions Metropolitan is undertaking to reduce energy use and the associated GHG emissions provides you the assurance that Metropolitan is committed and engaged to do its part in meeting the GHG reduction goals.

I would be happy to discuss this issue further or provide more detail if desired.

Sincerely,

Jeffrey Kightlinger
General Manager