2485 NATOMAS PARK DRIVE, SUITE 550 SACRAMENTO, CA 95833 TEL (916) 640-8150 FAX (916) 640-8156 www.clfp.com

The Voice and Advocate for the California Food Processing Industry since 1905

TO: **The Honorable Mary Nichols, Chair**
California Air Resources Board

FR: **California League of Food Processors**

DATE: April 15, 2016

RE: **California League of Food Processors Comments -- Public Workshop on Cap-and-Trade Regulation Amendments: Post-2020 Cap Setting and Allowance Allocation Comments**

The California League of Food Processors (CLFP) is a non-profit trade association based in Sacramento that represents food processing companies with operations in California.

With this workshop, the Air Resources Board (ARB) staff is beginning to look toward meeting the state's 2030 goals concerning emissions reductions. While CLFP understands that ARB is under a directive from the Governor and Legislature to move forward, nevertheless there remain outstanding issues surrounding ARB's statutory authority that should be resolved before any definite commitments are made by the state toward the 2030 goals utilizing Assembly Bill 32.

Interagency Cooperation Needs Improvement

The ARB continues to develop and promote cap-and-trade expansion in a relative vacuum. Despite repeated assurances of inter-agency cooperation in the development of the regulations, evidence of such continues to be absent from staff proposals and workshops. Regulatory development and implementation of the Cap-and-Trade regulation remains siloed, blissfully ignorant of other economic and regulatory factors that are impacting facilities subject to the compliance obligation. Case in point, there are a number of current rate proceedings at the California Public Utilities Commission (Commission or CPUC) that will have a huge impact on industrial facilities well into the future. The Commission is currently deliberating on rates that could increase natural gas transportation rates for noncore gas customers between 60% to 102%; establish new base revenue rates well above current revenue requirements; establish new protocols and penalties for system balancing. Aliso Canyon fallout will undoubtedly result in new and evermore stringent regulation, the costs of which will filter down to customers as well.

Additionally, with these cost increases to the bottom line of industrials, will come an increased call for an expansion of subsidized rates for the low-income. Add to that cost increases due to the carbon adder and the impact on California's economy will be noticeable to ever more Californians.

Inter-agency cooperation should mean more than agreement on development of carbon reduction policy alignment. ARB and other agencies with authority to raise rates and increase costs should make it mandatory to understand the cost/economic factors that contribute to increases unassociated with carbon emission reductions. Costs of water, employment, energy costs, wages, insurance, are all factors with which Cap-and-Trade facilities must contend, but which are given little or no consideration in the implementation of AB 32.

Purchased Electricity: CLFP opposes adding in purchased electricity under the compliance obligation. Adding electricity will increase compliance obligation by at least 8% for even highly efficient food processing facilities, even those that already employ clean technology. For operations without such offsetting technology (back pressure steam generators, for instance) counting purchased electricity will likely increase their compliance obligations significantly.

In the absence of grants, subsidies, and power purchase agreements where applicable, clean energy technologies such as solar voltaic and solar thermal, are NOT cost effective and other technologies that require significant facility modification, would be useless in keeping the cost of compliance reasonable.

Industry Assistance Factor: CLFP supports 100% industry assistance to all trade exposed industries for the third compliance period and continuing into post-2020 planning. ARB stated in the workshop that there was no technical basis to support reducing the industry assistance factor policy. Yet, currently there are no clear pathways for obligated facilities to obtain the necessary support to remain viable in the post-2020 cap-and-trade regulated economy.

The Legislature has yet to direct that auction funds be set aside for exclusive use by cap-and-trade facilities to increase energy efficiency and reduce emissions. Current incentive programs offered through the utilities are also deficient, many having been imagined 30 years ago. They requirements no longer fit the paradigm associated with the state's goal of reducing carbon emissions, especially at the trajectory the ARB is seeking to implement. Increasing carbon emission reduction from the current 2% to possibly 4.4% annually will place burdens on both industry and the California economy that are unprecedented. Where will facilities find the support necessary to continue to meet such requirements? Currently, utility incentive programs can take up to two or more years to finally result in upgrades, if they don't collapse beforehand. Markets live and die in much less time.

State research grants and loan programs still support the development of renewables and need to be altered and aligned to support the carbon reduction paradigm in a way that facilitates industry participation. Only by reviewing and redesigning these outdated programs to meet the new goals of AB32 and the cap-and-trade regulation will industry be able to continue to remain competitive.

Allocation for natural gas – increase amount of consignment to auction: By increasing the consignment to auction, the costs will increase to consumers. ARB should provide trade exposure protection for these costs consistent with their electricity EITE policy.

Increase percentage use of offset credits: CLFP supports increasing the percentage for use of offsets. CARB should give serious thought to adopting a policy to broadly allow the use of offsets. ARB should revisit the unnecessarily restrictive quantitative limit on the use of offsets. The cost containment potential for the broad use of offsets is undeniable, and we should be encouraging development of a healthy offset development market in the state. Strict limits will dampen enthusiasm and investment in these valuable and innovative projects.

Thank you for the opportunity to comment.

Should you have any questions or need additional information, please feel free to contact John Larrea, Government Affairs Director: (916) 640-8150