



March 8, 2013

Mary D. Nichols, Chairman  
California Air Resources Board  
1001 "I" Street  
Sacramento, CA 95814

**SUBJECT: PROPOSAL FOR AUCTION PROCEEDS INVESTMENT PLAN**

Dear Madame Chairman,

**Background**

The California Cogeneration Council (CCC)<sup>1</sup>, is an ad hoc association of natural gas-fired cogenerators located throughout California, and has actively participated in each phase of the Cap and Trade regulation ("the regulation") rulemaking. We have a diverse combined heat and power (CHP) membership, with all member projects emitting above the 25,000 metric tons CO<sub>2</sub>e threshold and therefore facing significant compliance obligations. Our member facilities range in size from 18 MW to 240 MW, and are integrated into schools, hospitals, food processors, paper manufacturers and other diverse California businesses.

When the Air Resources Board (ARB) adopted the cap-and-trade regulation at the December 16, 2010 Board meeting, Resolution 10-42 was issued. With respect to CHP, the resolution states,

**BE IT FURTHER RESOLVED that the Board directs the Executive Officer to review the treatment of combined heat and power facilities in the cap-and-trade program to ensure that appropriate incentives are being provided for increased use of efficient combined heat and power.**<sup>2</sup>

The impact of the cap and trade program on CHP facilities is an issue of significant importance if the state is to make progress toward Governor Brown's Clean Energy Jobs Plan goal to

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<sup>1</sup> Members of CCC own and operate more than 30 different combined heat and power (CHP) projects in California that collectively generate about 1,300 megawatts (MWs). CCC member projects are "qualifying facilities" (QFs) that sell power to the IOUs under the provisions of the Public Utilities Regulatory Policies Act (PURPA) of 1978.

<sup>2</sup> Air Resource Board Resolution 10-42 dated December 16, 2010, at page 11, <http://www.arb.ca.gov/regact/2010/capandtrade10/res1042.pdf>

“develop 6,500 MW of combined heat and power over the next 20 years,” i.e. by 2030.<sup>3</sup> This trajectory for CHP development is also consistent with the California Air Resources Board’s 2008 Scoping Plan adopting a CHP goal of an additional 4,000 MW of installed CHP capacity by 2020 as a key measure to reduce the state’s emissions of greenhouse gases.<sup>4</sup>

### **Cap-and-Trade Auction Proceeds Investment Plan**

The CCC proposes that CHP be considered in the development of the Administration’s investment plan for cap-and-trade auction proceeds. After the cap-and-trade program and the low carbon fuel standard, the 2008 Scoping Plan identifies Energy Efficiency strategies as having the potential to deliver the third greatest amount of GHG emissions reductions, estimated at 12 million metric tons. Of this total, the CARB CHP Recommended Reduction Measure is a statewide goal of 6.7 MMT from efficient CHP.<sup>5</sup>

Allocating a portion of auction revenues toward projects that will assist in increasing the efficiency of the existing CHP facilities, and encourage the installation of new CHP is consistent with the goal of investing auction proceeds in programs and projects that help achieve GHG reduction goals. Figure 6 of the Cap-and-Trade Auction Proceeds Investment Plan Draft Concept Paper<sup>6</sup> identifies eligible investments as those that achieve the following, “Reduce GHG emissions through energy efficiency, clean and renewable energy generation, distributed renewable energy generation, transmission and storage, and other related actions, including, but not limited to, at public universities, state and local public buildings, and industrial and manufacturing facilities.”

Existing CHP facilities are currently faced with the dual costs of (i) finding the funds to finance their cap-and-trade compliance obligations and, (ii) sourcing the capital to invest in restructuring and repowering their facilities to reduce GHG emissions. Transition assistance programs could be designed to alleviate this financial burden, sending the signal that investment in efficient CHP is a valuable reduction strategy supported by the State.

The most cost efficient method of directing investment funds towards successful projects is to use existing state programs. The California Energy Commission and California Public Utilities Commission have administered a number of energy efficiency programs over the last decade

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<sup>3</sup> See item #7 of [http://www.jerrybrown.org/sites/default/files/6-15%20Clean\\_Energy%20Plan.pdf](http://www.jerrybrown.org/sites/default/files/6-15%20Clean_Energy%20Plan.pdf) . Also see page 133 of the CEC’s 2011 IEPR.

<sup>4</sup> As referenced on pages 43-44 of the “Approved Scoping Plan” adopted by the CARB at its December 11, 2008 Board meeting. [http://www.arb.ca.gov/cc/scopingplan/document/adopted\\_scoping\\_plan.pdf](http://www.arb.ca.gov/cc/scopingplan/document/adopted_scoping_plan.pdf)

<sup>5</sup> As referenced on pages 43-44 of the “Approved Scoping Plan” adopted by the CARB at its December 11, 2008 Board meeting. [http://www.arb.ca.gov/cc/scopingplan/document/adopted\\_scoping\\_plan.pdf](http://www.arb.ca.gov/cc/scopingplan/document/adopted_scoping_plan.pdf)

<sup>6</sup> CARB Draft Concept Paper dated Feb. 15, 2013, at page 8, Figure 6, Eligible Investments.

and have the administrative oversight in place to manage programs targeted at encouraging energy efficient CHP.

A program consisting of the following three activity areas may encourage incremental CHP development in the short, medium, and long term.

**(i) Technical Evaluation Program**

This program would be administered by a state agency that provides funding for technical assistance to conduct audits/assessments, (e.g. energy management system assessments) at local governments, schools and public institutions, and at industrial and manufacturing facilities, with the goal of identifying energy efficiency measures and CHP technologies that could be adopted and installed onsite.

**(ii) Energy Financing Program**

Either the CEC or the CPUC could administer a financing program that provides a low-interest (1%) revolving loan and/or grant to local governments, educational institutions, and industrial and manufacturing entities for:

- The installation of energy efficiency measures and the development of CHP technologies;
- The installation at CHP facilities of advanced emission control systems, combustion technologies, process efficiency technologies, more effective waste heat capture technologies etc.;
- A subsidy/payment to facilities that utilize renewable fueled CHP systems; and
- A performance based incentive to encourage repowering or new development of CHP (e.g. supplemental funding to increase the incentive from the SGIP program and its eligible technologies, such as CHP).

The existing CEC Energy Efficiency Financing Program<sup>7</sup> could be expanded through an allocation of auction proceeds targeted specifically at CHP energy efficiency initiatives.

**(iii) Research, Development & Demonstration**

One of the challenges for existing operators is finding affordable, leading edge technology that will actually reduce GHG emissions in a timeframe to meet the requirements of the declining cap. Several intriguing technologies are in the developmental stage, but not available to CHP facilities today. Additional funding from the auction proceeds could be directed to the CEC's Research, Development and Demonstration Program<sup>8</sup> (RD&D) for projects designed with the

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<sup>7</sup> CEC Energy Financing Programs at: <http://www.energy.ca.gov/efficiency/financing/#amounts>

<sup>8</sup> CEC RD&D Program at: <http://www.energy.ca.gov/research/>

objective of ensuring that the most innovative and effective technologies for reducing GHG emissions can reach the market as soon as possible and can become cost-effective. RD&D projects could include evaluating new technologies that focus on:

- prime mover efficiency;
- emissions control and monitoring;
- improving CHP system electrical and thermal efficiency;
- matching CHP system electrical and thermal output to facility needs;
- improving load following capability and operational flexibility; and
- improving physical, thermal, and electrical integration among CHP systems components.

The CCC supports allocating auction revenue to fund existing programs in order to get money quickly into California's economy and to support job growth. CHP makes a significant contribution to the reduction of the GHG emissions; nonetheless, this contribution can be increased through initiatives that reduce compliance costs for existing operators and that harness the potential of new CHP. To these ends, the state should invest auction revenue into transition assistance programs targeting energy efficiency measures at CHP facilities.

We would be happy to discuss these ideas in more detail with CARB staff.

Yours sincerely,



Beth Vaughan  
Executive Director  
California Cogeneration Council