

October 27, 2017

Ms. Mary Nichols, Chair  
California Air Resources Board  
1001 I Street  
Sacramento, CA 95819

**RE: Comment Letter – Post-2020 Cap-and-Trade Regulation**

Dear Chair Nichols:

Thank you for the opportunity to submit comments in the early stages of the California Air Resources Board (ARB) developing the first draft of the Post-2020 Cap-and-Trade Regulations. With the support of the State Water Contractors (SWC), the Department of Water Resources (DWR) has been at the forefront of the state achieving its carbon reduction goals given the impact climate change can have on its water delivery mission. We look forward to participating in the ARB's Cap-and-Trade amendment process.

***The California State Water Project***

The State Water Project (SWP) is the largest state-built, multi-purpose water project in the United States. Owned and operated by DWR, the primary purpose of the SWP is to store and deliver water to its customers, the SWP contractors. The SWP customers pay all capital, operations, maintenance and financing costs, including Cap-and-Trade, associated with the SWP.

The SWP service area is found throughout Northern California, the San Francisco Bay area, the San Joaquin Valley, the Central Coast and Southern California. The SWP delivers an average of 2.6 million acre-feet of water annually to 25 million families and businesses and 750,000 acres of agriculture to provide critical water needs to the majority of California.

***Allocation of Emission Allowances for the State Water Project***

The SWP supplies more than half of its pump load with carbon free hydropower. DWR only purchases power when SWP hydroelectric production is insufficient to meet pumping demand. Guided by its Climate Action Plan, DWR is increasing its purchases of carbon free power. Overall the current average carbon content of the electricity in the SWP portfolio matches the statewide goal for 2030.

The SWP is a covered entity under the Cap-and-Trade Regulation because of its wholesale power purchases. During recent discussions with your staff we showed the relationship between the SWP and the SWP customers is similar to the relationship between the electric utilities and their customers. That relationship leads to the entire SWP Cap-and-Trade cost burden being borne by the SWP customers.



**DIRECTORS**

**Mark Gilkey**  
President  
Tulare Lake Basin Water  
Storage District

**Stephen Arakawa**  
Vice President  
Metropolitan Water District  
of Southern California

**Matthew Stone**  
Secretary-Treasurer  
Castaic Lake Water Agency

**Robert Cheng**  
Coachella Valley Water  
District

**Curtis Creel**  
Kern County Water Agency

**Cindy Kao**  
Santa Clara Valley Water  
District

**Douglas Headrick**  
San Bernardino Valley  
MWD

**Roland Sanford**  
Solano County Water  
Agency

**Ray Stokes**  
Central Coast Water  
Authority

**General Manager**  
Jennifer Pierre

Ms. Mary Nichols  
October 27, 2017  
Page 2

In our discussion we showed that, like the customers of the electric utilities, the customers of the SWP cost burden is a combination of a direct surrender obligation and the larger indirect burden associated with market purchases.

These similarities make the customers of the SWP indistinguishable from the customers of the electric utilities. Consequently, DWR should receive emission allowances in an amount to offset the total Cap-and-Trade cost burden that the SWP customers are subject to. Further, as we have previously stated, the SWC will support the use of the emission allowances to increase the energy efficiency and other greenhouse gas reduction measures associated with the SWP.

Thank you for the opportunity to make comments at this early stage in the development of the Post-2020 Cap-and-Trade Regulations. We look forward to participating in the open stakeholder process.

If you should have any questions, please do not hesitate to contact me at 916-447-7357 ext. 205 or [thaines@swc.org](mailto:thaines@swc.org).

Thank you for considering these comments.

Sincerely,



Timothy J. Haines  
Deputy General Manager, Energy

cc: Mr. Richard Corey, Executive Officer, California Air Resources Board  
Ms. Rajinder Sahota, California Air Resources Board