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December 15, 2016

Ms. Rajinder Sahota  
California Air Resources Board  
1001 "I" Street  
Sacramento, CA 95814

Subject: Los Angeles Department of Water and Power's Comments on  
California Air Resources Board's 2030 Target Scoping Plan  
Discussion Draft of December 2, 2016

The Los Angeles Department of Water and Power (LADWP) appreciates the opportunity to provide comments to the California Air Resources Board (ARB) on its 2030 Target Scoping Plan Discussion Draft (Discussion Draft) released on December 2, 2016. In submitting these comments, LADWP reaffirms its strong support of achieving the substantial greenhouse gas (GHG) emission reductions goals of AB 32 and SB 32 in a cost-effective manner that protects LADWP's ratepayers and minimizes impacts to low-income communities.

While LADWP appreciates ARB's efforts to provide information to stakeholders as it becomes available, it is difficult to comment on the Discussion Draft because it is not yet a complete document. Most significantly, the appendices that include underlying inputs into the modeling scenarios are not yet available for review. LADWP is commenting on currently available information. Its comments may change when additional Scoping Plan-related information becomes available for review.

#### LADWP Supports the Draft 2030 Target Scoping Plan Scenario

LADWP understands that ARB is in the process of conducting further analysis and modeling of the Draft 2030 Target Scoping Plan Scenario, Alternative 1 (No Cap-and-Trade) and Alternative 2 (Carbon Tax). LADWP supports the full consideration of costs and benefits of each alternative before selecting the approach that best meets California's GHG reduction goals, as outlined in AB 32, SB 32, and AB 197. However, LADWP anticipates that the Draft 2030 Target

Scoping Plan Scenario will remain the best option for California based on past positive experiences with flexible, market-based cap-and-trade programs for achieving cost-effective emission reductions.

The Discussion Draft indicates that the Draft 2030 Target Scoping Plan Scenario is the only scenario evaluated that will ensure that GHG reductions are sufficient to meet the goals of SB 32 under both favorable and unfavorable conditions. LADWP also supports ARB's consideration of "which measures might lend themselves, through careful design and collaboration with other interested jurisdictions, toward linked GHG reduction programs,"<sup>4</sup> and the Discussion Draft's conclusion that "[b]y extending the existing Cap-and-Trade Program post-2020, the State preserves its current linkages and supports future linkages."<sup>2</sup> Interstate and international linkages can simultaneously reduce the costs of GHG reductions and encourage GHG reduction efforts beyond California and even the United States. For that reason, the California legislature has made linkage a policy priority under AB 32 and should be an important factor in selecting among the scenarios.

The Draft 2030 Target Scoping Plan Scenario incorporates a well understood, cost-effective approach to reducing GHG emissions that simultaneously can be designed to address environmental justice concerns as required by AB 197. LADWP urges ARB to explicitly consider and discuss the ways in which the Cap-and-Trade Program and existing complementary policies can do so in the Draft 2030 Target Scoping Plan.

LADWP also applauds ARB's recognition that the Cap-and-Trade Regulation facilitates raising revenues that can be spent to ensure that disadvantaged communities are not disproportionately impacted by the effects of climate change and that disadvantaged and low-income communities can benefit from the economic opportunities of a clean energy economy in California.<sup>3</sup>

The Draft 2030 Target Scoping Plan is primarily a regulatory program aimed at reducing GHGs—a global pollutant for which the geographic location of emissions does not determine the geographic location of impacts. Impacts of GHG reduction policies have an effect on other more localized pollutants—however those pollutants should and are being addressed through federal and state regulatory programs specifically designed and established for those

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<sup>4</sup> Discussion Draft, page 33.

<sup>2</sup> Discussion Draft, page 91.

<sup>3</sup> Discussion Draft, pages 26-27.

pollutants. Therefore, the environmental justice impacts of each approach can be best analyzed by considering how the costs and revenues of a program are distributed among California communities.

LADWP urges ARB to consider the environmental justice impacts that each scenario will have on the electricity rates paid by low-income ratepayers. The efficiencies facilitated through market-based regulatory mechanisms, such as the Cap-and-Trade Regulation, can help entities like LADWP minimize rate increases, while the commitments that Los Angeles has made to divesting as quickly as possible from its existing coal generation fleet and increase renewable energy generation produce direct substantial environmental benefits for all Los Angeles citizens.

#### Coordinating the 2030 Target Scoping Plan and GHG Cap-and-Trade Regulation Regulatory Schedules

The ARB's schedule for developing the 2030 Target Scoping Plan and updating the GHG Cap-and-Trade Regulation appear to be on a similar timeline such that ARB Board adoption of both actions will likely occur in spring 2017. The Scoping Plan process includes an analysis of scenarios that include "No Cap-and-Trade" as a GHG control measure. However, even though much of the data used in the Scoping Plan process will be used to develop post-2020 allowance allocations for the updated Cap-and-Trade Regulation, this data is not expected to be released until early January 2017. LADWP believes that ARB should allow a reasonable amount of time after the Scoping Plan is adopted (e.g., at least 90 days) to further develop amendments to the Cap-and-Trade Regulation in light of the conclusions made in the Scoping Plan process.

#### ARB Coordination with Local Air Agency Criteria Pollutant and Air Toxic Pollutant Reduction Efforts

The Discussion Draft states that there is a need to "place more emphasis on large stationary sources with a particular focus on multi-pollutant strategies for those sources that reduce GHGs and harmful criteria and toxic air pollutants that result in localized health impacts, especially in disadvantaged communities."<sup>4</sup> Local air quality agencies such as the South Coast Air Quality Management District are already incorporating environmental justice considerations in their regulatory proceedings to address impacts of criteria and toxic air pollutants and through other regulatory processes such as the federal Clean Air Act State Implementation Plans. Many of the control measures adopted through these federal, state, and local regulatory programs would result in both the reduction in

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<sup>4</sup> Discussion Draft, page 14.

onsite criteria and toxics emissions—consistent with the concerns embedded in AB 197—and the co-benefit of reducing GHG emissions. LADWP recommends ARB include, in the Scoping Plan, information on how ARB will work with California local air agencies to ensure that agency resources are optimized and prevent agencies from developing inconsistent methodologies and policies to address environmental justice issues.

#### Use of Additional Achievable Energy Efficiency (AAEE) Data in the Modeled Scenarios

As LADWP noted in its November 21, 2016 comments on the Scoping Plan staff presentation of November 7, 2016,<sup>5</sup> LADWP has not analyzed the feasibility and cost impacts associated with achieving the level of savings anticipated by AAEE, let alone a scenario that reflects savings equivalent to 2.5 times that level (Draft Scoping Plan and Alternative 1 and Alternative 2 energy efficiency assumption).

LADWP recommends that ARB work with the energy agencies and affected electric utilities to determine whether, by 2030, implementing energy saving measures consistent with 2.5 times the level of savings anticipated by AAEE is cost-effective or even feasible. The California Public Utilities Commission stated in its Proposed Decision, “The CEC and [ARB], among other agencies, oversee significant programs relating to reducing energy use (and carbon emissions more generally)...Misplaced reliance on overoptimistic forecasts can lead to misallocated resources and reduced activity by other actors, to ratepayers’ and to the environment’s detriment. It can compound the internal and external pressure to claim success regardless of real-world program impact.”<sup>6</sup> LADWP believes that ARB should analyze the AAEE assumptions in the model to avoid these potential adverse impacts.

#### Evaluation of Electric Demand Impacts of Known Commitments and GHG Control Measures

As the Discussion Draft notes, “efforts to reduce GHG emissions in the transportation sector include electrification. This will increase demand for [the electric power] sector.”<sup>7</sup> Transportation electrification is both a known commitment under existing law and would be accelerated by certain policies adopted under each of the alternative Scoping Plan scenarios. Similarly, increases in electric demand would also occur to the extent that ARB adopts

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<sup>5</sup> <https://www.arb.ca.gov/lists/com-attach/37-sp2030scenarios-ws-UT1TNAFkBCBRJ1MM.pdf>

<sup>6</sup> CPUC Proposed Decision, Energy Efficiency Goals for 2016 and Beyond and Energy Efficiency Rolling Portfolio Mechanics.

<sup>7</sup> Discussion Draft, page 40.

policies that encourage shifting from natural gas to electric HVAC systems.<sup>8</sup> LADWP urges ARB to accurately account for the known commitments driving transportation and building electrification, and to fully analyze the impacts of any new policies to encourage electrification on regulated entities such as Electricity Distribution Utilities (EDUs).

#### Known Commitments

The California legislature has indicated that electrification of the vehicle fleet is a critical GHG reduction and environmental justice tool. SB 350 directs ARB to take such commitments into account when developing GHG reduction policies. The 2030 Target Scoping Plan should recognize these directives. To that end, LADWP recommends that ARB include the following language from SB 350 related to transportation electrification in the list of "Known Commitments – Electricity" on pages 40 and 41 of the Discussion Draft:

- The state board shall identify and adopt appropriate policies, rules, or regulations to remove regulatory disincentives preventing retail sellers and local publicly owned electric utilities from facilitating the achievement of greenhouse gas emission reductions in other sectors through increased investments in transportation electrification. Policies to be considered shall include, but are not limited to, an allocation of greenhouse gas emissions allowances to retail sellers and local publicly owned electric utilities, or other regulatory mechanisms, to account for increased greenhouse gas emissions in the electric sector from transportation electrification.
- Public Utilities Code 740.12. (a) (1) The Legislature finds and declares all of the following:
  - (A) Advanced clean vehicles and fuels are needed to reduce petroleum use, to meet air quality standards, to improve public health, and to achieve greenhouse gas emissions reduction goals.
  - (B) Widespread transportation electrification is needed to achieve the goals of the Charge Ahead California Initiative (Chapter 8.5 (commencing with Section 44258) of Part 5 of Division 26 of the Health and Safety Code).
  - (C) Widespread transportation electrification requires increased access for disadvantaged communities, low- and moderate-income communities, and other consumers of zero-emission and near-zero-emission vehicles, and increased use of those vehicles in those communities and by other

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<sup>8</sup> Discussion Draft, page 42.

consumers to enhance air quality, lower greenhouse gases emissions, and promote overall benefits to those communities and other consumers. (D) Reducing emissions of greenhouse gases to 40 percent below 1990 levels by 2030 and to 80 percent below 1990 levels by 2050 will require widespread transportation electrification.

...

(a)(2) It is the policy of the state and the intent of the Legislature to encourage transportation electrification as a means to achieve ambient air quality standards and the state's climate goals. Agencies designing and implementing regulations, guidelines, plans, and funding programs to reduce greenhouse gas emissions shall take the findings described in paragraph (1) into account.

#### 2030 Target Scoping Plan Scenario Analysis of Electrification

Consistent with the directives of SB 350, both the 2030 Target Scoping Plan Scenario and the Cap-and-Trade Regulation, should be designed to facilitate economy-wide reductions through a wide array of mitigation measures, including vehicle electrification.

LADWP believes that the compliance burden under the Cap-and-Trade Regulation should not increase for EDUs as a result of the implementation of electrification measures that achieve net GHG emission reductions. EDUs should not be required to obtain additional allowances to cover the increased GHG emissions incidentally resulting from the increased electricity demand due to vehicle electrification. Instead, CARB should develop allowance allocation rules, as well as other regulatory mechanism, that encourage vehicle electrification by EDUs for achieving net GHG reductions.

Electrification needs to be cost effective in order to accomplish the significant amount of electrification necessary to achieve the state's emission reduction goals. Since electric vehicles and hybrids cost more to purchase than comparable conventional fossil-fueled vehicles, the operating cost of electric vehicles must be significantly lower than that of conventional vehicles in order for electric vehicles to make economic sense to consumers. As long as electricity remains a low cost alternative fuel for transportation, it will be cost effective for consumers to purchase and use electric vehicles. However, if ARB's programs increase the price of electricity, the higher cost will have a chilling effect on electrification of the transportation sector, and California will be at risk of not achieving its 2030 GHG emission reduction target.

LADWP urges ARB's analysis of the Target Scoping Plan Scenario to keep this "bigger picture" perspective in mind. Just as the Discussion Draft highlights policy changes that can better facilitate environmental justice concerns under this Scenario,<sup>9</sup> LADWP urges ARB to identify mechanisms by which electrification can be enhanced under this Scenario, including specific allowance allocation options.

#### *Alternative 1 (No Cap-and-Trade)*

Under Alternative 1, ARB has identified a suite of GHG reduction measures that would simultaneously increase requirements on EDUs while increasing electric demand. These policies that directly affect EDUs include the following:

- Increasing the RPS to 60% by 2030; and
- Expanding increasing deployment of electric heat pumps in buildings while accelerating retirement of gas furnaces.<sup>10</sup>

ARB's modeling and analysis of Alternative 1 should evaluate the interactive effects of these measures on the power generation sector. Replacing market-based compliance tools with command-and-control requirements on EDUs may increase ratepayer costs that will make policies to encourage or mandate the deployment of electric vehicles and electric heat pumps more difficult and expensive. This analysis should be conducted in light of SB 350's legislative finding that "Widespread transportation electrification requires increased access for disadvantaged communities, [and] low- and moderate-income communities."<sup>11</sup>

#### *Alternative 2 (Carbon Tax)*

As outlined above, policies that increase the cost of electricity for ratepayers risk undermining efforts to decarbonize the transportation sector—California's largest source of GHG emissions—through electrification. However, unlike under the Cap-and-Trade Regulation, a strategy that primarily relies on a carbon tax is likely to increase the cost of electricity without a clear mechanism (such as allowance allocations) to mitigate ratepayer impacts that will ultimately reduce the economic case for diffusion of electric vehicles. LADWP urges ARB to include an analysis and discussion of these interactive effects in its evaluation of Alternative 2.

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<sup>9</sup> Discussion Draft, page 91.

<sup>10</sup> Discussion Draft, page 92.

<sup>11</sup> Public Utilities Code 740.12(a)(1)(C)

Conclusion

LADWP strongly supports ARB's efforts to develop a new scoping plan for achieving the next phase of GHG reductions for California by 2030, as called for under SB 32. To that end, LADWP appreciates the opportunity to provide these initial comments on the draft scoping plan to ensure the development of a balanced and well-coordinated package of GHG reduction strategies that meet California's goals in a cost-effective manner that protects LADWP's ratepayers and minimizes impacts to low-income communities. If you have any questions, please contact me at (213) 367-0403 or Jodean Giese at (213) 367-0409.

Sincerely,



Mark J. Sedlacek  
Director of Environmental Affairs

JG:vf

c: Ms. Stephanie Kato, ARB  
Mr. Jakub Zielkiewicz, ARB

Ms. Emily Wimberger, ARB  
Ms Jodean Giese