California Municipal Utilities Association
915 L Street, Suite 1460 • Sacramento CA 95814 • 916/326-5800 • 916/326-5810 fax • www.cmua.org

April 22, 2014

Michael Tollstrup, Chief
Project Assessment Branch, Stationary Source Division
California Air Resources Board
1001 I Street
Sacramento, CA 95184

Re: **CMUA Comments on the Proposed Update to AB 32 Scoping Plan**

Dear Mr. Tollstrup:

Thank you for the opportunity to provide these comments on the first update to the Climate Change Scoping Plan released in early February.

The California Municipal Utilities Association (CMUA) represents the vast majority of California's consumer-owned utilities and represents its members' interests on both energy and water issues. Our members are committed to local economic development – including job creation – and have an excellent track record in providing reliable electricity at low rates to their customers. CMUA members have also demonstrated leadership on environmental initiatives including reducing the impacts of climate change, meeting the State's 33 percent Renewables Portfolio Standard by 2020, and in expanding energy-efficiency programs and developing electric vehicle charging stations.

We look forward to working with the Air Resources Board (ARB) and other stakeholders in the State's efforts to significantly reduce greenhouse gas (GHG) emissions, and to successfully implement a wide range of programs to meet California's ambitious environmental goals. Any future measures will have a substantial impact on the electric sector through the State's efforts to decarbonize the electric sector, expand the role of intermittent renewable resources, and electrify the transportation sector.

CMUA believes that policy-makers will benefit from better understanding the potential cumulative operational and financial impacts on the electric system of the programs designed to meet those objectives. This awareness of cumulative impacts will help avoid consumer criticism of rapidly increasing costs, particularly as the State continues to recover from a deep economic recession. Too often, individual policies are created without regard to their combined effect on the broader electricity system. For example, mandating the addition of large amounts of renewable resources creates a need for additional generation sources that can be ramped up and down quickly to fill-in for or "firm" the intermittent generation from the likely renewable resources to meet this mandate. This "firming" generation will likely be natural gas-fired, which can be difficult to permit on the same aggressive timetable as the renewable resources they are intended to back-up, and may conflict with other State environmental policies and local air district rules.

CMUA believes that reasonable options exist to ensure that operational and environmental integrity is achieved and retained at moderate and stable costs. The emphasis of the Updated Scoping Plan should be on flexibility, supported by the Cap & Trade Program that ensures California's GHG targets are informed by a transparent price signal. Among the primary outstanding issues of importance to CMUA members, we urge the ARB to further consider:

- **Feasibility and Demonstration**: Further analysis is needed to determine whether the interim and long-term emissions reduction targets highlighted in the Scoping Plan Update are technologically feasible, adequately demonstrated, and can be implemented in a cost-effective manner for California customers. This analysis should include working with stakeholders to identify legal, institutional, operational, and other real impediments that must be resolved in order to meet the stated targets at a reasonable cost. For example, just because a technology like carbon capture and sequestration (CCS) may be feasible for a power plant in the future, does not make it so now. Considerations must include the scalability of technology, the long lead-time for planning, permitting, and constructing the CCS facilities at such a plant, mitigating potential environmental or public health impacts, and whether the proposed emissions reductions from a new technology are achievable in practice. Furthermore, the Scoping Plan Update's focus on the 2050 emission reduction goal should not take away from reviewing the efficacy of current program measures meant to achieve the original 2020 objective, as achieving the 2050 target is dependent on meeting 2020 goals.

- **Cost-Containment**: The ARB has acknowledged that a Cap & Trade Program cost-containment mechanism is an important way to ensure the program's long-term success (Board Resolution 13-44, October 25, 2013). As the ARB considers extending the program beyond 2020, developing a cost-containment plan as soon as possible should be prioritized. Doing so in an expeditious manner will provide better market certainty, ensure the electric sector has the time necessary to make long-term investment decisions, and to address a potential 2030 emissions reduction target. ARB should not wait until 2017 to initiate this effort. We urge the ARB to engage stakeholders now – while the market is stable – to design, test, and implement a cost-containment mechanism rather than waiting until abatement costs escalate dramatically, or a potentially destabilizing price crisis to address the issue. This work should also include exploring further opportunities to expand the offset program, including continuing to accept out-of-state projects.

- **Allowance Allocation**: If the Cap & Trade Program is extended beyond 2020, electrical distribution utilities should receive an allocation of allowances in a manner similar to the current allocation methodology. The detailed stakeholder engagement, data analysis, and modeling work undertaken when this methodology was being developed resulted in a reasonably fair allocation method that protects ratepayers now and into the future. Much of the current protections built within the Cap & Trade program (e.g., Climate Credit) are allowing electric utilities to better adjust to the aggressive renewable resource procurement required by the RPS by offsetting some of the ratepayer impacts. As the allowance allocation among utilities is developed, the procedure should reflect the increased electric generation and emissions needed to support the State's 2025 objective for transportation electrification.

- **Asset Controlling Suppliers**: To further promote the regional climate change partnership with the greater Pacific Northwest, under the Pacific Coast Action Plan on Climate and Energy signed in October 2013, the ARB should revise California's rules on mandatory reporting of GHG emissions for Asset Controlling Supplier imports. The newly-effective 2014 contracting requirement for such imports may force California's customers to pay more for power this year than they otherwise would have paid in prior years for the same power. This would unnecessarily increase California's reported emissions and increase Cap & Trade Program compliance costs.

CMUA members look forward to the continued dialog and analysis needed to help the State in reaching its GHG goals. Thank you for your time and consideration.

Sincerely,

Tony Andreoni

Tony Andreoni, P.E.
Director of Regulatory Affairs

cc: Richard Corey, Executive Officer
Edie Chang, Deputy Executive Officer