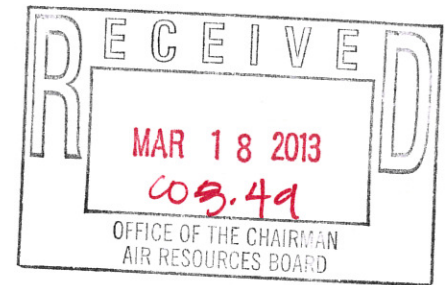




THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA



*Office of the General Manager*

March 8, 2013

**Via Electronic Submittal**

Ms. Mary Nichols, Chair  
California Air Resources Board  
1001 I Street  
Sacramento, California 95814

**Written Comments on Draft Concept Paper  
for Investment of Cap-and-Trade Auction Proceeds**

Dear Chair Nichols:

The Metropolitan Water District of Southern California (Metropolitan) respectfully submits the following comment letter on the Draft Concept Paper (Concept Paper) for the Cap-And-Trade Auction Proceeds Investment Plan released on February 15, 2013. We request that you consider these comments in the development of an investment plan for auction proceeds derived from the Cap-and-Trade program for reduction of greenhouse gas (GHG) emissions.

The California Energy Commission has estimated energy used in water-related activities to be significant, potentially 19% of the electricity and 30% of the natural gas consumed in California. This was further supported in the Governor's FY 2014/15 budget proposal describing the Brown Administration's priorities for the investment of auction proceeds. Under the priority of Electricity and Commercial/Residential Energy, the Governor's proposal notes that "Electricity and commercial/residential energy is the second largest contributor of GHG emissions (30%) and the water sector is one of the largest users of electricity...". With recognition of the significant role of the water sector in achieving the state's GHG reduction targets, we offer the following comments on the benefits of investing in water use and supply projects. We also provide recommendations for additional investment principles that support the state's investment goals and need for phased investments.

By way of background, Metropolitan provides nearly half of the residents of California with reliable water supplies and helps to control energy costs by generating renewable solar and hydroelectric power to treat and deliver water. Our 5,200 square mile service area

includes a significant proportion of the state's disadvantaged communities and contributes nearly \$1 trillion to the state's economy.

Metropolitan also receives wholesale water from the Department of Water Resources (DWR) through the State Water Project (SWP). Due to the distance State Water Project supplies travel to reach Metropolitan's service area, Metropolitan pays approximately 70 percent of the DWR/SWP power costs.

Metropolitan is particularly interested in the development and implementation of the first investment plan because we are in a unique situation among water agencies in the state. The California Air Resources Board (CARB) has determined that Metropolitan's imported and supplemental energy must be included in the Cap-and-Trade program and defined Metropolitan as an electrical marketer although we do not acquire energy for resale. Being included in the Cap-and-Trade program in this manner will require Metropolitan to acquire allowances through the competitive auction process with entities such as for-profit energy marketers and commodity traders. Although Metropolitan was not allocated free allowances as was done for the private and public electrical utilities, Metropolitan remains committed to advancing the state's policies and priorities for addressing climate change through GHG reductions and resolving the state's long-standing water issues.

We encourage you to consider a more prominent role for water use and supply projects in achieving the state's GHG emissions and reductions targets.

### ***Support for State's Investment Goals***

The Concept Paper (at page 7) outlines six investment goals for the use of auction proceeds. Water use and supply projects, which are identified as an eligible investment, are an important means to achieve these goals given the significant energy use in the water sector. Water-related projects are increasingly important in Southern California, which is dependent on imported water supplies transported over hundreds of miles. Projects within Metropolitan's service area would support the state's investment goals as follows:

- **Maximize economic, environmental, and public health benefits to the state:** Water use and supply projects that reduce GHG emissions within Metropolitan's service area also help ensure water reliability and stabilize water supply costs by reducing energy use. These benefits improve air quality while encouraging economic development and ensuring that disadvantaged communities continue to have access to reliable, safe, and economic water supplies.
- **Fostering job creation by promoting in-state GHG emissions reductions projects carried out by California workers and businesses.** Metropolitan contracts annually for as much as \$500 million in construction, goods and services. Metropolitan is committed to providing contracting opportunities to regional, small, and disabled veteran-owned businesses in Southern California. Metropolitan has a small business utilization goal of 18 percent and a disabled veteran-business enterprise goal of 3 percent. Since Metropolitan's Business Outreach Program was launched in 2001, an average 30 percent of Metropolitan's contracting dollars have been awarded to small

and disabled-veteran owned businesses, representing a reinvestment of \$700 million into these local businesses.

- **Complement efforts to improve air quality:** With additional funding Metropolitan could pursue new efforts to permanently displace fossil-fuel electricity with renewable energy facilities; replace older, inefficient pumps and other water-related equipment with units that are more efficient; and develop additional local water resources, including water efficiency and storage that would avoid new and increased imports of water from remote areas. All of these projects would reduce GHG emissions and support improvements in air quality.
- **Direct investment towards the most disadvantaged communities and households in the state:** As documented in the regional maps included in the Concept Paper, Metropolitan's service area includes a significant portion of the state's disadvantaged communities within Southern California. This area is second only to the San Joaquin area in the top 10 percent of highest scoring US Census zip codes. Metropolitan's projects would allow these communities to benefit from the state's efforts to reduce GHG emissions.
- **Provide opportunities for businesses, public agencies, nonprofits, and other community institutions to participate in and benefit from statewide efforts to reduce greenhouse gas emissions:** Metropolitan serves nearly half of the state's population. We provide reliable water service through our 26 member public agencies and over 300 water retailers. We collaborate with local governments, nonprofits, and local community organizations to promote local water supply development, water efficiency, watershed protection and business development. Projects within Metropolitan's service area would expand the opportunities for these entities to benefit from statewide efforts to reduce GHG emissions.
- **Lessen the impacts and effects of climate change on the state's communities, economy, and environment.** As a regional water provider, Metropolitan is at the forefront of climate change issues and the potential impacts to water supply reliability for Southern California. Projects within Metropolitan's service area would lessen the impacts and effects of climate change on Southern California.

### ***Consistency with State's Investment Phases***

The Concept Paper (at page 11) describes the need for phased investments over the life of the program, identified as Early Action, Transition, and Transformation. Water use and supply projects within Metropolitan's service area would support this approach. The types of projects that Metropolitan is prepared to implement include both near-term projects during the early investment plan years and long-term transformative technologies and approaches. Metropolitan continually seeks to advance technologies through water conservation, recycling, water storage projects, local renewable energy installations (e.g. solar), water and energy efficient appliance incentives, and many others.

### ***State's Investment Principles***

The Concept Paper (at page 11) identifies the need for a flexible structure to accommodate uncertainty including allowing for sequential investment as proceeds become available. We believe that the investment goals identified in statute and the investment plan should be supported by investment principles that include:

- Covered entities under the Cap-and-Trade Program, who were not allocated free allowances, should receive priority for allocation of auction revenue.
- Criteria for both project prioritization and long-term, multi-year projects.
- A mechanism for funding multi-year projects by providing for the establishment of escrow-type accounts for multi-year projects. This would encourage implementation of larger projects such as solar installations at Metropolitan's treatment plants.

Metropolitan has been actively engaged in discussion of Cap-and-Trade policy issues since AB 32 was introduced. Most recently, during the fall of 2012, Metropolitan and State Water Contractor representatives met and discussed criteria for prioritization of auction revenues and project implementation with staff from CARB, Department of Finance (DOF) and the Governor's Office. Ms. Kathleen Cole from Metropolitan's Sacramento office provided comments during the public workshop held on February 25, 2013, in Sacramento. We remain committed to this process and are prepared to work with CARB and DOF, as well as other applicable state agencies, such as the California Energy Commission, DWR and State Water Resources Control Board and the California Legislature.

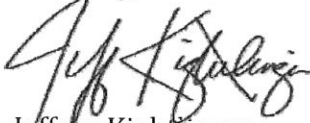
Metropolitan also supports and adopts by reference the comment letter submitted by State Water Contractors, Inc., and encourage CARB and DOF to recommend that investment plan auction proceeds be used to make investments in SWP energy and water efficiency projects as outlined in said letter.

Metropolitan's commitment to the state and our constituents is to assure that the distribution of allowance auction revenues to water-related projects obtains the highest possible level of greenhouse gas emission reductions; benefits disadvantaged communities within the Metropolitan service area; continues to provide for a safe and reliable water supply for 19 million Southern Californians; and helps achieve the goals of AB 32 and related statutes.

We recognize that this is a long-term program, but we believe that this initial investment plan for Cap-and-Trade auction proceeds will set an important precedent for future years. We appreciate your consideration of Metropolitan's comments and concerns.

Please contact Janet Bell at [jbell@mwdh2o.com](mailto:jbell@mwdh2o.com) or Jon Lambeck at [jlambeck@mwdh2o.com](mailto:jlambeck@mwdh2o.com) if you have any questions or wish additional information.

Sincerely,



Jeffrey Kightlinger  
General Manager

cc: Ms. Nancy McFadden, Executive Secretary, Office of the Governor  
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Secretary John Laird, California Natural Resources Agency  
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Chair Robert B. Weisenmiller, Ph.D., California Energy Commission  
Commissioner Andrew McAllister, California Energy Commission  
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Cynthia Marvin, Division Chief, California Air Resources Board  
  
Senator Alex Padilla