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November 7, 2013

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

Re: Draft Final AB 1318 Report
Comments of California Manufacturers & Technology Association (CMTA)

Dear Chairman Nichols,

Introduction

CMTA appreciates the opportunity to comment on the Draft Final AB 1318 Report. Representing more than 700 large and small manufacturers in the state, CMTA advocates for state policies and regulations that will maintain a healthy business climate and encourage manufacturing job retention and growth. The Los Angeles area is host to a major industrial economy – it is crucial that the energy supply in the region supports this economy and the wealth it creates for workers, supply chains, and government revenues for important public services. We hope that our comments here will help to improve the report so that policymakers will be well-equipped to make decisions about energy infrastructure in the basin for the next ten years and beyond.

Natural-gas fired generation is an important solution to maintain reliability in the basin

We face daunting challenges posed by the closure of SONGs and the retirement of once-through cooling plants at the same time we must integrate increasing levels

of renewables in the state and solve air quality requirements in the basin. Manufacturers and other businesses in the South Coast Air Basin and San Diego are directly impacted by local grid reliability and companies up and down the state want a robust and competitive electricity market to keep costs low and encourage innovation.

This report acknowledges, and we agree, that natural gas-fired generation will be a significant part of the solution for the energy and capacity shortfall anticipated in the next decades. In fact, the environmental and other benefits of natural gas as an energy source are highlighted by recently adopted state policy. The legislature recently passed and the Governor signed AB 1257 (Bocanegra) to require the California Energy Commission to identify strategies “...to maximize the benefits obtained from natural gas as an energy source, helping the state realize the environmental and cost benefits afforded by natural gas. This includes “taking the best advantage of natural-gas fired generation as a low-emission resource” (Public Resources Code Section 25303.5 (b) (3)).

The benefits of the most efficient and flexible natural-gas fired generation can hardly be overstated given the nature of the challenges in the South Coast Basin. The operational attributes of these state-of-the-art plants, including baseload, periodic and/or flexible service from the right locations will support increasing renewables at an affordable cost. It is vital that the right combination of fossil-fueled and other resources be chosen to maximize reliability and cost benefits in the basin.

Maximize opportunity to choose from all generation

Reliability in the basin has become a high-level concern with the recent decision to permanently close the San Onofre Nuclear Plant (SONGs). State energy officials are proposing that about half of the solution to fill the shortfall in energy and capacity due to the SONGs shutdown should come from “preferred resources” – including energy efficiency, distributed generation, demand response, storage and renewables. Some of these resources may be relatively expensive. We should therefore take every opportunity to choose lowest cost, best-fit generation from the “unpreferred” category. Total replacement costs need to be affordable for residents and businesses.

The Report describes the possible scenarios for load and generation in the next decade. One assumption is that nearly all the anticipated natural-gas fired generation will come from repowering existing plants that are now configured for use of once-through-cooling technology. This assumption is justified by the argument that the bank for emission reduction credits for PM10 will only be accessible by those facilities. The Report accepts this conclusion, but notes that the scarcity of ERC's for PM10 is a serious problem that must be resolved at some time in the future.

If this constraint were not a factor, all new or repowered facilities would have an equal opportunity to bid into the utility solicitations for generation. This would increase competition and lower costs for ratepayers. Reliability would be promoted by increasing the choices of location, size, and other characteristics. Because of the constraint, the potential benefits that could be realized from a broader solicitation were ignored in the Report.

The Report should be improved by explicitly informing policymakers about the cost and reliability trade-off they are making by not taking immediate steps to resolve the problem posed by the scarcity of PM10 ERCs. In addition, the existing legal or other barriers should be re-examined to see if they are still valid. The size and complexity of the challenge to replace SONGs, incorporate renewables and maintain grid reliability demands that we question every assumption, keep an open mind and be creative.

Conclusion

Consumers and businesses will be paying higher electric bills in future years to pay for important state environmental policies. We can't afford to add to the burden by ignoring opportunities to keep costs lower and we do not have the luxury of time to put off a resolution to the problems identified in these comments.

Sincerely,



Dorothy Rothrock

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California Manufacturers & Technology Association