

# CCDC

## California Clean DG Coalition

August 1, 2013

Honorable Mary D. Nichols, Chair

Steven Cliff, Ph.D  
Chief, Climate Change Program Evaluation Branch

California Air Resources Board  
1001 I Street  
Sacramento, CA 95814

**Re: Comments on July 18 Workshop Regarding Proposed Changes to the California Greenhouse Gas Cap-and-Trade Regulation**

Dear Chair Nichols and Dr. Cliff:

The California Clean DG Coalition (“CCDC”) appreciates the opportunity to provide these comments regarding the California Air Resources Board’s (“ARB”) Staff Workshop on July 18, 2013 regarding the “discussion draft” of proposed changes to the Cap-and-Trade Regulation. CCDC is an ad hoc group interested in promoting the ability of distributed generation (“DG”) system manufacturers, distributors, marketers and investors, and electric customers, to deploy DG. Its members represent a variety of DG technologies including combined heat and power (“CHP”), renewables, gas turbines, microturbines, reciprocating engines, and storage. CCDC is currently comprised of Capstone Turbine Corporation, Caterpillar, Inc., Cummins Inc., DE Solutions, Inc., GE Energy, Holt of California, NRG Thermal, Penn Power Systems, Peterson Power Systems, Recycled Energy Development, Solar Turbines, Inc., and Tecogen, Inc.

CCDC sees value in some of the revisions relating to CHP, however, CCDC remains concerned that unless important benchmark issues are addressed, CHP will be forced to bear an economic penalty, which is contrary to longstanding policy supporting CHP, and diminishes the value of CHP as a GHG emissions reduction energy efficiency measure, as defined by ARB in the AB 32 Scoping Plan. CCDC urges ARB to modify the draft revisions to the Cap-and-Trade Regulation as proposed herein to maximize CHP’s GHG emissions reduction potential

for California.<sup>1</sup> All references to CHP in these comments include CHP that is owned by the customer or by a third party.

### **Resolution 12-33**

ARB Resolution 12-33 called for revisions to the Cap-and-Trade program to recognize the GHG emission reduction value and other benefits of CHP. Resolution 12-33 specifically provides:

WHEREAS, the Cap-and-Trade Program should **reward existing and incentivize new** efficient distributed electricity generation technologies, such as [CHP]; ...

(Emphasis added.)

Among other things, Resolution 12-33 called for an allocation of allowances to universities and a transitional exemption from the Cap-and-Trade Program for “but for” CHP. The discussion draft revisions to the Cap-and-Trade Regulation include the transition relief for Universities. As proposed by staff, that relief has appropriately been expanded to also include public service facilities. The discussion draft revisions also purport to address “but for” facilities. The assumptions about the lack of a need for further relief after the first compliance are erroneous, which already is having a chilling effect on CHP investment planning.

The important direction provided in Resolution 12-33 to reward existing and incentivize new efficient CHP should overlay any and all CHP-related revisions to the Cap-and-Trade Regulation. It clearly supports the revisions proposed herein.

### **Allowances for Universities and Public Service Facilities**

Staff proposes transitional assistance for Universities and public service facilities subject to the Cap-and-Trade Program, many of which have operational systems, through allowances equal to their three-year historical fuel use baseline (excluding electricity exports), beginning in 2013 and declining in proportion to the cap through 2020. CCDC supports this action, including the expansion to include public service facilities. CCDC continues to recommend that eligibility for this transitional assistance be broadened to include other institutional and private entities, whether serving public or private buildings, who have demonstrated similar early action and leadership behavior.

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<sup>1</sup> Additional detail is provided in the CCDC Comments Regarding May 1 ARB Staff Workshop in CHP and Cap-and-Trade. That letter is incorporated herein by reference.

### **The CHP “But For” Exemption**

ARB staff proposes a limited exemption for CHP during the first compliance period so long as neither the emissions associated with the production of Qualified Thermal Output nor the remaining facility emissions exceed 25,000 MTCO<sub>2</sub>e (new Section 95852(j).) A facility must apply, under penalty of perjury, to ARB for the exemption.

CCDC is concerned that the requirement to apply for the exemption under penalty of perjury adds an undue administrative burden, without a corresponding benefit. CCDC suggests that a more efficient approach would be for ARB to notify eligible facilities, which could then provide necessary documentation of emissions levels, without having to go through a formal application process.

### **Cap-and-Trade Does Not Create a Level Playing Field for CHP**

ARB has indicated that beginning with the second compliance period, all CHP facilities, whether as covered entities or through a carbon adder in the price of natural gas, will be on the same economic playing field and that Cap-and-Trade will actually provide an incentive for efficient CHP. CCDC continues to disagree with this concept, for the detailed reasons provided in its comments on the May 1 Workshop. CCDC reiterates its recommendation the State true-up the effective carbon price adder paid for on-site CHP natural gas to mirror CHP’s CO<sub>2</sub> benefit relative to CARB’s electric benchmark. Possible solutions to this critical issue could include the following:

- Payments to CHP owners from Cap-and-Trade Auction proceeds or the Natural Gas Allowance Revenue Fund
- A discount to the carbon price in natural gas to CHP owners and allowances to CHP owners in Cap-and-Trade

### **Conclusion**

CCDC appreciates ARB’s consideration of these critical issues for CHP. We look forward to working with ARB as this process moves forward.

Sincerely,

  
James Halloran  
Chair