CALSEIA
CALIFORNIA SOLAR ENERGY INDUSTRIES ASSOCIATION

November 13, 2015

Mary Nichols, Chair
California Air Resources Board
1001 "I" Street
Sacramento, CA 95814

RE: Comments on Cap-and-Trade Allowance Proceeds Second Investment Plan

The draft "Cap-and-Trade Allowance Proceeds Second Investment Plan" (Investment Plan) rightly acknowledges that, "Reducing energy-sector emissions to near-zero by 2050 will require wholesale changes to the State's current electricity and natural gas systems."[1] The Plan highlights the need for targeted investments to achieve that goal, including investments to develop biomass energy sources, to reduce green waste burning, to develop carbon capture and storage technology, and to convert to preferred refrigerant systems. With respect to refrigerants, the Plan states that although alternative technology exists in the marketplace, "financial barriers inhibit widespread adoption."

This is precisely the type of problem that the Cap-and-Trade Program is well suited to address, and it is necessary also to apply the reasoning to technologies that compete with natural gas. Shale gas drilling has dramatically reduced the price of natural gas in California and the U.S. Technologies that are effective at reducing greenhouse gas emissions from natural gas combustion may not be cost effective from a customer adoption standpoint even if they are cost effective from a statewide carbon reduction standpoint.

Solar water heating is a prime example. Heating water in homes and businesses accounts for 3.5%-4% of total statewide greenhouse gas emissions. Solar technologies are effective at reducing emissions from residential, commercial and industrial water heating. However, the return on a customer-driven investment has not been sufficient to lead to adoption anywhere near the technical potential or the level needed to substantially address this sector of emissions.

The Investment Plan should specifically address this as a problem and an opportunity. Technologies that reduce the carbon intensity of non-utility activities where heat is typically supplied by the combustion of natural gas may be hindered by the low price of natural gas. Providing support for those technologies may be an effective investment in greenhouse gas reduction.

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[1] ARB, "Cap-and-Trade Allowance Proceeds Second Investment Plan: Fiscal Years 2016-17 through 2018-2019," October 27, 2015, p. 34.7

A recent decision at the California Public Utilities Commission failed to capitalize on the opportunity of allowance revenue from natural gas utilities as a meaningful price signal or funding source. The decision ordered that utilities only consign to auction the minimum percentages in the Cap-and-Trade Regulation – 30% in 2016, increasing 5% per year – and that utilities return all of the proceeds to customers as bill credits.[2]

The CPUC decision thwarts the entire objective of the Cap-and-Trade Program. The carbon price signal is estimated to be $11.97 to $14.89 per year. At that level, it will do nothing to reduce greenhouse gas emissions. The CPUC is effectively delaying any action on addressing climate change through natural gas utilities and the Cap-and-Trade Program until years from now when carbon pricing has risen to a meaningful level. This is time that we do not have to spare.

In implementing the Cap-and-Trade Program, ARB is careful not to interfere with the decision making processes of other state agencies. However, other agencies do not have the same mandate to reduce greenhouse gas emissions and give the issue much less attention. ARB gave final say on the consignment percentage to CPUC, but then the CPUC deferred to the previous guidance from ARB.

The Board must also be willing to fund programs that were previously created by other agencies. The Cap-and-Trade Program has a prohibition on funding programs that are already funded by other sources. This is an important protection to make sure that Cap-and-Trade funds are not used in a "shell game," in which previous or ongoing allocations to an emission reduction program are diverted elsewhere. However, this should not be applied to programs that have received a specified amount of funding that is determined to be insufficient to address the need. As long as that previous allocation is not removed and is unlikely to be renewed, supplementing it with funding from allowance revenues can be appropriate. The goal is emission reduction, and if an investment is able to genuinely achieve that goal it should not be taken off the table.

Thank you for the opportunity to comment. We look forward to working with the Board to help develop policies that lead to a low carbon future and a strong economy.

Respectfully,

Brad Heavner
Policy Director

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[2] CPUC Decision 15-10-032.