# M E M O R A N D U M

**TO:** California Air Resources Board

**FROM:** Modesto Irrigation District
Redding Electric Utility
Turlock Irrigation District

**SUBJECT:** Cap-and-Trade May 17, 2010 Public Workshop

**DATE:** June 7, 2010

## Introduction

Modesto Irrigation District ("MID"), Redding Electric Utility ("REU"), and Turlock Irrigation District ("TID"), collectively the "Utilities," appreciate the opportunity to comment on the issues discussed during the May 17, 2010 Cap-and-Trade public workshop. There are numerous complex issues to be addressed as part of a well-designed cap-and-trade program, and the Utilities appreciate the work that the California Air Resources Board (CARB) has done to allow for multiple opportunities to provide stakeholder input.

The cap-and-trade program should function as a complimentary tool to assist the local distribution companies (LDCs) in meeting their compliance obligations. The Utilities believe that allocating allowance value to LDCs will mitigate, not eliminate, the cost of the AB 32 complementary programs while promoting investments in GHG reduction activities and technologies.

The cap-and-trade program must include a method for distributing and surrendering allowances that incorporates the needed flexibility for creation of a successful and cost-effective program that doesn't result in economic leakage.

## The Utilities

MID, REU and TID are local publicly owned electric utilities. MID and TID are irrigation districts located in the Central Valley and REU is a municipal electric utility

within the City of Redding. MID serves over 110,000 electric customers with a peak load around 650 Megawatts (MW). TID serves about 100,000 electric customers with a peak load of approximately 600 MW. REU serves 42,000 customers with a peak load of 247 MW. The Utilities maintain similar resource mixes, including large hydroelectric, eligible renewables and fossil fuel sources. They also share similar challenges, including weather patterns, demographics and economics. The Utilities have consistently supported the goals of AB 32 and participated in CARB's effort to create a successful implementation program. The Utilities continue to urge CARB to move forward in a manner that protects the reliability of the electric grid and maintains the Utilities' efforts to provide reliable and affordable power to their customers.

**Cap-&-Trade Regulation Status Update**

**EAAC**

The Utilities support CARB's intentions of not beginning the cap-and-trade program with a 100% auction.

The Utilities support the EAAC recommendation that auction proceeds be used to prevent the potential adverse impacts of climate change, as well as finance public and private investments that would achieve emissions reductions, adaptation, and environmental remediation. The Utilities believe that LDC's are uniquely positioned to use the allowance value to achieve these goals.

The EAAC also recommended returning auction proceeds directly to consumers - the Utilities agree with this concept, but believe that if the allowance value is apportioned to consumers through tax rebates/reductions, the allowance value is not being fully utilized as it would <u>not</u> be funneled into uses that serve the dual purpose of cost containment and emissions abatement. Direct allocation of allowance value to LDCs, on the other hand, would avoid these problems.

Additionally, the allocation of allowances to LDCs provides a mechanism for addressing utilities' load growth. Even as consumers are educated and encouraged to participate in energy efficiency programs, load growth can result naturally from population changes. Load growth can also result from carbon abatement programs implemented in other sectors that shift their fuel use to electricity. Some examples being examined by CARB include plug-in hybrid vehicles, truck idling restrictions, and port electrification.

**Allowance Allocation**

The Utilities support CARB's desire to increase the amount of free allocations. However, the Utilities believe that the electric sector should be included as a senior user in Tier 1 for allowance value given their primary role in reducing California's GHG emissions. CARB acknowledges on slide 33 that the LDCs have the ability to apply the value of the allowances directly to emission abatement programs and consumer relief,

however the placement of the electric utilities in Tier 2 of the CARB proposal does not fully recognize this.

Further, electricity deliverers should not be restricted to use their allowance value solely for the purpose of investing in renewable energy. LDC's can and should be allowed to use their allowance value for many of the items outlined by CARB – such as investments in community related GHG reductions.

CARB has outlined two separate uses for the allowance value in addition to that given to LDCs for renewables: the Community Benefits Fund and the California Carbon Trust. While these programs assist in meeting the goals of AB 32, the allowance value must be prioritized to the LDC's to achieve real GHG emissions.

**Allowance Reserve**

The Utilities support the role of different cost containment measures in a cap-and-trade program. However, the Utilities do not agree with the development of a reserve account, specifically one that takes allowances from early compliance periods. The Utilities believe a reserve would both weaken and complicate a cap-and-trade program. By removing allowances from the marketplace, fewer allowances are available for covered entities, which in effect reduces the cap below the goal set by legislation and raise compliance costs.

The Utilities believe that both a price collar as well as increasing the amount of offsets that could be used for compliance would serve as more effective cost containment mechanisms.

**Rebate Program**

The Utilities do not agree with the development of a State-run rebate program. The EAAC recommends returning a "significant share of allowance value toward financing of public and private investment" in order to meet the objectives of AB 32. The Utilities believe that the compliance entities will make better use of those funds through the various measures mentioned above.

**Leakage**

CARB has proposed assigning a carbon price to first jurisdictional imports to prevent leakage. The Utilities support the general concept of the first jurisdictional approach; however, it is essential that CARB reassess the default emissions factor to better reflect the respective resource mixes in the Pacific Northwest and Southwest. Assigning the same default emissions factor to both of these regions could undermine one of the core goals of AB32: to ensure that emission reductions are "real, permanent, quantifiable, and verifiable." According to EIA data[1], the combined regions of New Mexico, Arizona,

[1] http://www.eia.doe.gov/oiaf/1605/pdf/Appendix%20F_r071023.pdf

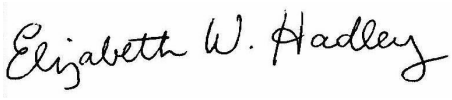
Colorado, Utah, Nevada, Wyoming and Montana have an average emissions intensity of 0.7835 (tons CO2e/MWh), while Oregon, Washington, and Idaho have an emissions intensity of .147 (tons CO2e/MWh). These regional differences must be accounted for before an accurate carbon price signal can be formulated.

**Conclusion**

The Utilities appreciate the opportunity to comment and welcome the opportunity to discuss this with CARB to develop these concepts further.

Respectfully submitted,

Joy Warren
MODESTO IRRIGATION DISTRICT



Elizabeth Hadley
REDDING ELECTRIC UTILITY

Dan Severson
TURLOCK IRRIGATION DISTRICT