CALIFORNIA FARM BUREAU FEDERATION

OFFICE OF THE GENERAL COUNSEL

2300 RIVER PLAZA DRIVE, SACRAMENTO, CA 95833-3293 · PHONE (916) 561-5650 · FAX (916) 561-5691

July 14, 2010

Clerk of the Board
California Environmental Protection Agency
Air Resources Board
1001 I Street
Sacramento, CA 95814

RE: Notice of Public Hearing to Consider Adoption of a Proposed Regulation for a California Renewable Electricity Standard/Comments of the California Farm Bureau Federation

To Members of the Air Resources Board:

The California Farm Bureau Federation ("Farm Bureau")[1] provides these Comments as the Air Resources Board considers adoption of the new regulation to reduce greenhouse gas emissions from the electricity sector by implementing Article 6, California Renewable Electricity Standard ("RES"). Farm Bureau appreciates the efforts of staff in compiling the extensive information necessary to support a regulation of this magnitude. The issue is extremely complex and stakeholders have been provided the opportunity to review a variety of documents, which reflect the ongoing development of analyses leading to the proposed regulation.

Farm Bureau's Comments on the RES are limited, focusing on two issue areas underlying the supporting conclusions reached as set forth in the Staff Report: Initial Statement of Reasons ("ISOR"):

1. Economic impacts on agricultural customers.

2. The California Environmental Quality Act Document for the Proposed RES.

---

[1] The California Farm Bureau Federation is California's largest farm organization with over 81,000 members in 53 county Farm Bureaus. CFBF is a voluntary, nongovernmental, nonpartisan organization of farm and ranch families seeking solutions to the problems that affect their lives, both socially and economically.

Economic Impacts on Agricultural Customers

As the ISOR notes, assessment of potential adverse impacts on California business enterprises is a necessary step in the development of a regulation. The economic analysis conducted relies on extensive modeling and analysis, yet for agricultural customers the analysis falls short because agricultural customers in California do not conform to the broader patterns relied on in assessing impacts to other businesses in the state.

The data relied upon related to production details are obtained from national relationships. Such details are used after assessing output from the Energy Model, which details are then used as input to the EDRAM. It appears that the effect on agriculture of an increase in electric prices is based on an average relationship nationally, rather than the situation that occurs in California where there is a higher dependency upon irrigation facilities. An agricultural operator may pay for both the electricity to operate pumps and an increase in water prices, which increase results from an escalation in pumping costs for major irrigation projects. Thus, there is a strong indication that the modeling for agriculture may not be sufficiently detailed to accurately capture the economic impacts.

In analyzing the impacts on small businesses (pages X-11 to X-13), the impacts from an increase in electric costs attributable to the RES are determined to be negligible. Important to that conclusion is the assumption about the ability of agricultural customers in this category to pass along costs: "As a result of the Proposed RES, California businesses are likely to pass on the bulk of cost increases to consumers in the form of slightly higher prices for their products or services."

Unlike other businesses agricultural producers do not control the pricing of their goods. "The farm sector is composed almost entirely of owner-operator farms that are price-takers, with a high proportion of their assets in the form of land, operating in unstable markets characterized by inelastic domestic demands and uncontrollable fluctuations in exports."[2] Supporting analyses assume that most small businesses will be able to pass any associated cost increases along to consumers. For the majority of small businesses this is probably reasonable. Their markets are typically small and local in nature, and their local competitors will all be subject to similar cost pressures. So, for example, if all barbers experience a five percent increase in costs, in theory (and most likely in practice) those barbers will be able to pass those costs on to their customers because all suppliers will be responding to the same cost pressures. In contrast, California's farmers largely compete in a global market. While avocado growers and walnut growers in California will all experience similar cost pressures resulting from

[2] Profile of the U.S. Farm Sector, David H. Harrington and Alden C. Manchester, for the Agricultural – Food Policy Review: Commodity Program Perspectives. Economic Research Service, U.S. Department of Agriculture. Agricultural Economic Report No. 530, July 1985.

electricity price increases, those cost pressures will not be felt by avocado growers in Mexico or walnut growers in Europe, so the world trade prices for those commodities will not adjust to reflect California's changed costs. Because of this world-wide market, California farmers are not able to pass on cost increases in the same way as many other businesses, and are price takers in a way that is not reflected in the analysis.

The impacts to agricultural operators in the cost analysis also inform the effects on small business, since a high proportion of farms in the state are properly classified as small businesses. Pursuant to Government Code Section 11342.610 an agricultural business with gross receipts under $1 million is deemed a small business, if independently owned and operated and not dominate in its field of operation. According to figures from the 2002 Census of Agriculture[3] over 90% of the farms in California fall into the small business category.[4]

It is important for decision makers to acknowledge the additional costs that will be imposed on electricity customers and the implications of the rising costs from a 33% RPS. At a time when there are a multitude of cost inputs with a constant upward trajectory to businesses, careful oversight of potential escalations in cost is fundamental to a sound state economy. In the case of the RES the potential for cost pressure on customers may be significant and require greater focus than currently proposed.

Section 97011 Regulation Review

The electric industry in California has had substantial experience with unanticipated consequences related to mandated purchase requirements for power. Although the RES allows for review of the program on a number of grounds, there are no assurances that if the underlying cost assumptions become untenable any action will be taken to ameliorate the effects. The review merely requires "consideration" of impacts on electric rates, consumers and economic growth. Impacts arising at the conclusion of one review period might be forced to wait until the next review period for action to provide any remedy for escalating costs. Only if meaningful backstop remedies can be incorporated into the review process, such as trigger mechanisms in the event customer costs reach a threshold level, will there be assurances that costs can be controlled.

California Environmental Quality Act Document for the Proposed RES

The CEQA document notes its limited ability to provide any specific mitigation measures related to land use, since ARB lacks land use authority. Rather compliance with existing land use policies, ordinances and regulation for

---

[3] The Measure of California Agriculture, University of California Agricultural Issues, Center, August 2009, Table 1.7

[4] The table does not segregate categories at $1 million, so the precise percentage is not possible to decipher.

minimizing impacts would be further addressed for individual projects through CEQA and/or NEPA review. Yet, it recognizes the potential for a substantial contribution to a significant cumulative agricultural impact from the projects.[5]

Among the recognized laws requiring compliance with respect to agricultural impacts is the Williamson Act, an important tool for farmland preservation. State budget impacts to the funding for the Act were raised in explaining its structure.[6] While it is true that Governor Schwarzenegger suspended the Williamson Act subvention funding in the 2009-2010 State Budget, counties across the state absorbed the costs and maintained the program. We are very optimistic that the 45 year old program will be saved long-term due to its strong bipartisan support in the Legislature. Realistically though, California's State Budget crisis is chronic and Farm Bureau and other agricultural organizations are committed to the creation of dedicated sources of revenue for the program.

Conclusion

The Proposed RES demonstrates the complex analysis required to identify viable solutions in order to meet a 33% RPS mandate within the targeted time frame. The way to attaining 33% is fraught with opportunities to over burden ratepayers, who are very directly supporting the goal. At a minimum, some level of backstop cost protection should be required in recognition of the imperfect analysis that must always accompany projections of future outcomes.

Very truly yours,

Karen Norene Mills

KAREN NORENE MILLS

KNM:bg

---

[5] Page E-380

[6] Page E-276