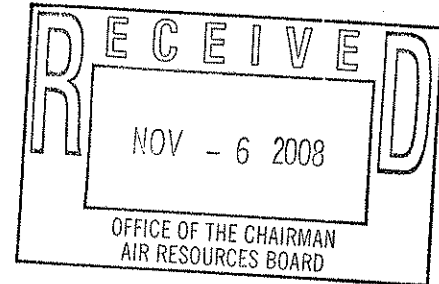


# Southern California Leadership Council

05-11-21  
November 4, 2008



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Mary Nichols  
Chairman  
California Air Resources Board  
1001 "I" Street  
P.O. Box 2815  
Sacramento, CA 95812

Dear Ms. Nichols:

Enclosed please find the Southern California Leadership Council's (SCLC) comments filed in response to the California Air Resources Board (CARB) Proposed Climate Change Scoping Plan.

While CARB has specific responsibility for development of the regulatory approach under AB 32, we believe many of the opportunities for cost effective, sustainable, energy, environmental and resource programs will be developed by the Resources, Business, Transportation and Housing and Environmental Protection Agencies working with California's Energy and Public Utilities Commissions.

With agencies working together and developing complimentary and reinforcing goals and incentives to address California's energy, transportation, water, economic development and environmental needs, we can achieve the state's global warming goals while protecting our economic vitality. Our comments present several of these opportunities.

SCLC looks forward to working with you on these important initiatives.

Sincerely,

Floyd Wicks  
2008 Co-Chair

David Fleming  
2008 Co-Chair

Enclosure

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The Center of Economic Development

# **Southern California Leadership Council**

## **Southern California Leadership Council Comments re CARB's Proposed AB 32 Draft Scoping Plan**

The Southern California Leadership Council (SCLC) is a business-led and sponsored public policy partnership for the Southern California region. The Council is comprised of top business leaders from throughout our seven counties joined by our former Governors to help enable public sector officials, policy makers and other civic leaders address and solve public policy issues critical to the region's economic vitality and quality of life.

SCLC is committed to supporting a sustainable, economically efficient, achievement of AB 32's global warming goals.

SCLC filed Preliminary Comments to CARB's AB 32 Draft Scoping Plan on July 8, 2008 along with a January 2008 Los Angeles Economic Development Corporation Study "The AB 32 Challenge: Reducing California's Greenhouse Gas Emissions." Our initial comments emphasized the importance of a credible public communications program, potential risks to the economy, the use of market incentives, AB 32's relation to CEQA, and the need to emphasize large scale opportunities in addition to the conservation and renewable goals including, reconsideration of nuclear power options, the need for incremental LNG supplies (particularly as a transition fuel for the transportation sector) and new power links to access large scale, more economical, renewable energy sources in remote and desert regions.

CARB's Proposed Scoping Plan prompts SCLC to reemphasize some of its earlier issues as well as offer additional suggestions.

### **A Credible Public Communications Program**

California's AB 32 success depends upon the continuing support of its people. Properly educated about AB 32's challenge and solutions, California can achieve its global warming goals. Public surprises along the way need to be avoided to stay the course and public measurements of success will depend upon what promises were made by public policy makers at the outset.

For this reason SCLC respectfully shares its concerns about CARB's recent Economic Analysis Supplement which concludes that AB 32 will

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result in overall positive economic impacts including, personal income growth, per capita income and job growth in California in 2020 compared to a “business as usual” base case.

SCLC asked the LAEDC to review CARB’s Economic Analysis Supplement because its conclusions are in conflict with the aforementioned LAEDC Study which found “policy makers should be wary of promises that GHG reduction programs can be implemented without substantial cost to the economy.” (p 31)

Both the original LAEDC Study and the LAEDC Review are attached. LAEDC’s key Review finding is that CARB’s Economic Analysis Supplement uses a base case which underestimates the progress in energy efficiency savings which are likely to be achieved in the absence of AB 32, thereby overstating the cost savings attributable to AB 32.

The highly respected California Energy Commission, in its Draft 2008 Integrated Energy Policy Report update, clearly cautions:

“In forecasting energy demand, isolating the effects of different sources of savings is a complex process that is sometimes subjective and, therefore dependent on staff judgment...”

Energy efficiency poses major challenges for energy forecasters. It is difficult to reliably estimate reduced consumption from efficiency measures for the following reasons:

- Efficiency results depend inherently upon consumer behavior...
- There are different ways to account for impacts of efficiency programs taken in isolation...
- Effects of efficiency efforts depend on variations in program funding and authorization...

It is imperative that energy forecasters and program analysts refine and improve methods to quantify energy efficiency and conservation imputes to yield reliable results, **while also accounting for processes already at work in the market.**” (emphasis added) (pp 39-40)

These overlapping effects or “double counting” concerns caused the California Public Utilities Commission to apply an overlap factor of as much as 80 - 100% in recent PG&E, SCE, and SDG&E energy demand forecast proceedings (p 45). The swing of world oil prices from \$140 to under \$70 per barrel is just one example weakness of the “business as usual” approach.

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SCLC respectfully believes it advisable that CARB withdraw and republish its Economic Analysis Supplement after it has reconsidered and adjusted its base case assumptions. We believe that a range of possible outcomes which recognize that there may be net costs to the economy is the realistic and advisable conclusion, consistent with LAEDC's findings. We honestly believe this is critical to demonstrate CARB's credibility that it is focused on both environmental and economic factors mandated in AB 32. If such an approach is not acceptable to CARB, SCLC respectfully urges, as an alternative, that CARB create an ongoing process that assesses the annual economic impact of its AB 32 regulations. This will enable CARB to adjust those regulations that may result in onerous economic impact, consistent with the requirements of AB 32.

As a policy matter it is advisable to prepare Californians for likely cost impacts while developing and implementing our AB 32 program in as smart and cost effective manner as possible. The people of California are better served and more likely to provide ongoing support for the AB 32 program with such an understanding of the possible cost consequences. If we do our job well and achieve lower cost impacts, the public will be pleasantly gratified.

## **Use of Market Mechanisms**

SCLC applauds CARB for the beginnings of a Cap and Trade program in its Proposed Scoping Plan for all the reasons cited in our original comments. Aligning market forces has the greatest potential for global warming success. However, without a broader market, there is real potential for economic harm, particularly if California's program starts without WCI or national linkage. A "cap and control" program, as some have labeled it, restricts the trading market that the state's stationary sources need to meet the 2020 target.

As drafted, most of the major GHG reductions relied on by other jurisdictions such as the UN, EU and RGGI will not be available to California sources. Stationary sources responsible for the additional 35 MMT reduction will, therefore, be much more vulnerable and dependent on access to offsets, than sources subject to other regional GHG programs. California's proposed offset restrictions (10% reduction use limitation and restriction to California sources) are too stringent given the likely shortage of offsets and high demand due to lack of reduction opportunities for California's sources under CARB's proposed program.

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Stationary sources, responsible for 35MMT of reductions beyond specified program mandates, may not be able to comply with program limits without access to verifiable allowances and offsets from other jurisdictions. The risk is that significantly increased compliance costs would place California at a severe economic disadvantage.

SCLC recommends that California implement designs that permit the program to be scaled up and linked with other jurisdictions and ultimately integrated into a national program. So long as verifiable, high quality internationally traded offsets would not only support market efficiencies but would also incent other countries to aggressively pursue their own programs.

The Scoping Plan should provide enough flexibility to avoid economic harm if California's market starts alone. SCLC recommends expanded access to offsets. In addition, for sectors where CARB is still developing sufficient information regarding emission factors and projected activity levels, California should commence an averaging and inter-sector trading market based on carbon intensity standards. This program should be phased into a cap and trade model as the program is expanded geographically and as sufficient data become available. We must note that the Plan is void of mechanisms to provide credit for non-utility investment in renewable energy strategies or energy efficiency retrofits such as commercial/industrial and further diesel retrofit strategies.

Finally, to promote innovation and job creation, SCLC recommends an innovative technology credit program to jump start strategic technologies such as carbon capture and sequestration, energy storage, advanced geothermal and other advanced energy conversion technologies, super-conductive transmission, advanced batteries, significant solar energy advances; low-carbon biofuel facilities and infrastructure and advanced combustion technologies. Parallel incentives for such ventures to be located in California should also be part of a holistic economic development strategy. Simply training a green workforce, without a green business attraction initiative is not a winning strategy.

## **Large Scale Solutions to Address a Massive Challenge**

Today many Californians, including many of our public leaders, are under the mistaken impression that if we simply add solar panels on the roofs of our homes and buy alternative fuel vehicles, California's energy and

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greenhouse gas worries are over. They lack an understanding of the critical importance of reliable base load energy supplies, peaking capability, and grid flexibility. The need for energy balance, supply reliability and affordability are staples of a successful, competitive and job rich economy as well as a necessary ingredient in a plan that the Chinas and Indias of the world can follow.

This is why an effective public communication strategy needs to give Californians a sense of why large scale solutions are a critical part of an overall AB 32 strategy. When one realizes the magnitude of replacing all of our aging, once through and coal fired power generation plants (most of which serve Southern California) as well as electrifying more and more of our modes of transportation, the scale of the challenge becomes evident. Even achieving our aggressive renewable and energy efficiency goals fall woefully short of addressing this massive undertaking.

### **A Power Link Transmission Access Goal**

Large scale, cost-effective renewable projects generally need to rely on lower cost, sun or wind prone, remote areas such as California's deserts. New transmission power links become a necessary element if California is to achieve its 33% renewable goals by 2020. The CEC in its Draft 2008 Integrated Energy Policy Report update cautions:

"...significant barriers to achieving this goal include: the need for transmission additions and upgrades to access renewable resource areas; the challenges associated with integrating large amounts of renewable resources into the state's electricity system; the impacts of renewable contract delays or cancellations; potential cost and rate impact of adding renewables to the system; and permitting issues for renewable generation facilities in environmentally sensitive areas." (p. 2)

SCLC commends the creation of a Renewable Energy Transmission Initiative. SCLC believes CARB needs to adopt in concert with the CEC and CPUC, a state goal for transmission access as a necessary component of its renewable resource goals to ensure "California's Renewable Future."

### **Nuclear Power as an Essential Strategy**

Nuclear power, with no global warming emissions, supplies more than 13% of California's energy needs and more than 20% of the nation's base load energy supplies. More than 30 new nuclear plant applications are currently

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in process nationally. New dry storage technologies now make storage on site a safer option and reprocessing technologies can substantially reduce nuclear waste.

Unfortunately, California law prohibits the construction of any new nuclear plants in California until the Energy Commission finds that the federal government approves and there exists a demonstrated technology for the “permanent disposal” of spent fuel from these facilities.

A March 2006 report commissioned by the CEC, “Nuclear Power in California, A Status Report” recognized that the National Commission on Energy Policy identified both environmental and economic benefits of nuclear power:

“The environmental benefits arise from low GHG emissions from nuclear reactors. This is an important benefit to California, which has as a goal to reduce GHG emissions to 2000 levels by 2010 and to 1990 levels by 2020, and to reduce GHG emissions to 80% below 1990 levels by 2050. The economic benefits of nuclear power arise from nuclear power’s relative reliability and from its use of uranium as a fuel rather than natural gas. Uranium is less expensive and more abundant than natural gas, providing a more stable power price. Moreover, insofar as uranium replaces natural gas, which is the marginal fuel in California, it also mitigates natural gas supply pressures and potential price increases.”(p 22)

The same report noted that a 2003 MIT study found that with high gas prices, a carbon tax, and some plausible cost reductions, “nuclear power could become competitive with coal and natural gas.” (p 22)

It is time for state leadership to revisit the nuclear option and direct the CEC to develop a policy recommendation on the need for new nuclear power in California in light of California’s AB 32 mandates, and whether California’s existing prohibition should be lifted. Governor Schwarzenegger and both Presidential candidates are now supportive of new nuclear power as a part of the nation’s energy independence strategy and Attorney General Jerry Brown, who was Governor at the time the nuclear ban was enacted, has publicly stated “his mind is open on the issue.”

Without the nuclear option, California’s ability to achieve its global warming goals is thwarted. China, on the other hand is considering nuclear power as the most likely strategy to reduce its reliability on coal.

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## **LNG as a Transition Transportation Fuel**

According to the CEC: “The United States, including California needs to develop additional supplies of natural gas to meet its growing demand. Because North America supply basins are maturing, the U.S. will need to rely more on imported supplies, including liquefied natural gas (LNG).” (p 1) Liquefied Natural Gas in California: History, Risks and Siting, July 2003.

Globally, new LNG receiving terminals are growing rapidly, particularly to supply demand for new, more efficient combined cycle power generation. As the CEC has acknowledged, with reductions in price and a growing spot market, along with the option of long-term contracted supplies, “LNG is now a global business.” (p 6)

Unfortunately, with the exception of SEMPRA’s new, limited capacity, Baja California facility, California has no ability to source these global supplies.

LNG receiving capacity in California would create multiple benefits: diversification of natural gas supplies, a downward pressure on natural gas prices, and a cleaner, lower emissions alternative to diesel powered class B heavy duty trucks, and buses which create 20% of California’s transportation GHG inventory as well as unhealthful air emissions.

SCLC recommends CARB and the CEC include an objective of at least one new LNG receiving terminal in California as part of California’s GHG strategy.

Like nuclear, without the LNG option California’s global warming goals are jeopardized.

## **Water, Energy and Agriculture—Achieving Environmental Co- Benefits**

How can California reduce CO2 emissions, conserve water, increase its carbon credits market, add to its renewable energy portfolio and reduce some of its power link capacity needs to sensitive environmental areas?

Create multiple economic incentives for some of California’s agricultural tracts to voluntarily convert their use from “photosynthesis” to “photovoltaic” farming.



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Certain agricultural tracts in the “sun rich” and “grid proximate” San Joaquin, Riverside, San Bernardino, Coachella and Imperials areas are relegated, due to soil and other conditions, to low margin, high water use crops, such as cotton and alfalfa. These are also often energy intensive uses.

With targeted economic incentives to promote the voluntary conversion of some of these tracts to solar voltaic farms, banking of water use and elimination of crop farm related energy consumption and emissions, California can achieve multiple policy goals and farmers can create better economics for their land.

Not unlike California’s “Million Solar Rooftops” program, a “Thousand Solar Farms” program could offer appropriate economic incentives for a larger scale, more cost effective, distributed and grid accessible, renewable power generation program.

Add an economics driven “Water Conservation Incentive” to pay the farm owner to dedicate the unused water to a “regional water bank” program. The unused water supplies could then be used/sold for other purposes including environmental mitigation and future water supply needs for communities and water agencies that achieve California’s 20% water conservation objectives.

If Agricultural Preserve Tax status is at risk, continue the status for the solar farm application.

Along with the value of the land for the solar farm, these multiple incentives could achieve all the environmental co- benefits described above.

### **CEQA and AB 32 Interface**

AB 32 has created major new uncertainties regarding the inner workings of the CEQA process as it relates to development and infrastructure (transportation, water, energy, etc.) projects. With the overlap of AB 32 and CEQA’s “universal access” to the courts for third parties, a real risk exists that California’s ability to continue to modernize, which is essential to achieve our AB 32 goals, is at risk of abuse and stagnation. No guidelines or consistency exist today to address either quantitative or qualitative options to address and mitigate AB 32 impacts. Critically needed infrastructure like those goods movement infrastructure projects identified for Proposition 1B funds by the California Transportation Commission may

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not be able to move through mandated permitting processes in the timely manner necessary to meet funding deadlines, resulting in loss of desperately needed state funding.

SCLC understands OPR has asked CARB to develop recommendations on thresholds. It is expected that the OPR CEQA guideline will provide the framework for GHG analysis and that CARB will likely supplement that with its separate parallel guidance on what is a defensible threshold of significance. This will enable lead agencies to use the OPR regulations plus CARB's recommendations, if they want to do so in setting the thresholds of significance. With California's universal access to the courts under CEQA, state level guidelines are a critical component to avoid CEQA gridlock.

SCLC believes that a "qualitative" approach, aimed at continuous improvement of the average efficiencies of California's overall stock of greenhouse gas emitting infrastructure and development be used. Zero baselines or quantitative significance thresholds are inappropriate for most development projects as these will inevitably lead to the elimination of negative declarations and categorical exemptions for projects that may offer distinct improvements in overall greenhouse gas efficiencies. Not every project should require an EIR. Trying to reorder the economy through a case by case CEQA process is problematic and will stifle progress. Use of an efficiency approach, on the other hand, will promote market creativity, that others, both in California, and globally will emulate. People will continue to be born here and the children and grandchildren of the people of California deserve both a vibrant, modern, job rich economy and the quality of life we all want and need. A qualitative approach will achieve these goals.

### **Enter SB 375 – A Partial Solution to CEQA/AB 32 Uncertainties?**

The ink on SB 375 is still wet, as are Governor Schwarzenegger's caveats on the need for "clean up" legislation. Many believe SB 375 raises more questions than it answers. Others see it as a process to reduce the AB 32 uncertainties previously discussed relating to CEQA. "Sustainable Community Plans" are a new, time consuming process. Moving forward with existing Regional Transportation Plans to ensure progress on specially funded self-help funding measures and Proposition 1A and !B congestion relief and goods movement infrastructure projects must be accomplished within defined time frames or hard fought for funding will be lost.

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The process should not be limited to housing and transit considerations from either a live/work or vehicle miles traveled standpoint. From a holistic economic development/job creation perspective, it may be just as viable to bring commercial and modern industrial developments to a housing rich area as it is to bring housing to a jobs rich area. Mixed use development may be more effective than “vertical development” in some communities. All of these considerations need to be addressed and this will take time. Catching up with woefully needed and already identified transportation infrastructure needs in the meantime is essential.

### **Conclusions**

SCLC must share some frustration with the Scoping Plan process. While AB 32 proscribes CARB’s unique role in the process, it also makes clear that from a state perspective, implementation must be just as focused on economic impact. CARB’s strength is with the science of air quality and its regulation. Other agencies such as the Energy Commission, the Public Utilities Commission, the Business, Transportation and Housing Agency and Resources Agency, must also play a critical role in developing the programs which will enable the massive changeovers wrought by the global warming challenge. The Proposed Climate Change Scoping Plan primarily reflects CARB’s regulatory approach. It is woefully lacking, however, in solutions, particularly solutions of the scale to enable success. SCLC has attempted to identify some of those solutions and intends to share these comments with other agencies and press for action. Without reinforcing objectives and programs from these agencies, CARB’s regulations alone carry significant competitive and economic risks for the future of California. Reaching our greenhouse gas goals while promoting business and job creation for a vital economy is the only way California can use and sustain its GHG leadership role to create world-wide followers in this global quest.