



CALIFORNIA MUNICIPAL UTILITIES ASSOCIATION

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JERRY JORDAN, Executive Director

Date: August 11, 2008
To: California Air Resources Board and Staff
From: Jerry Jordan, Executive Director
California Municipal Utilities Association
Re: Comments on Appendix C to the Draft Scoping Plan

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The California Municipal Utilities Association (CMUA) is the statewide association that represents publicly-owned utilities throughout California, and submits these Comments on behalf of its members.¹ CMUA members are local public agencies in California that provide water, gas, and electricity service to California consumers. In total, CMUA members serve approximately 25-30 percent of the electricity load in California. These comments on Appendix C are intended to supplement CMUA's comments on the Draft Scoping Plan that were filed with the California Air Resources Board (ARB) on August 1, 2008.

Section 1, Cap and Trade: ARB's rulemaking process should expressly guarantee stakeholders a full and fair opportunity to present evidence on non-market-based program designs that may be shown to achieve the maximum technologically feasible and cost-effective emission reductions required under AB 32.

Appendix C recommends a California cap-and-trade program that is linked to the Western Climate Initiative. The program will include a declining cap on the covered sectors comprising 85% of California's emissions sources. (pp. C-11 to C-13). The Appendix states that the trading mechanism will create "an opportunity for facilities that can reduce emissions at a lower cost to do so," thereby, enabling emission reductions in the most cost-effective manner. (pp. C-11, C-13). The actual emission reductions, of course, do not occur by virtue of the cap-and-trade program. They will result from actions taken by entities within the capped sectors.

¹ CMUA electric utility members are the Cities of Alameda, Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Corona, Glendale, Gridley, Healdsburg, Hercules, Lodi, Lompoc, Los Angeles, Moreno Valley, Palo Alto, Pasadena, Pittsburg, Rancho Cucamonga, Redding, Riverside, Roseville, San Francisco, Santa Clara, Shasta Lake, Ukiah, Vernon, Victorville, and the City of Industry, as well as the Imperial, Merced, Modesto, Turlock Irrigation Districts, the Northern California Power Agency, Southern California Public Power Authority, Transmission Agency of Northern California, Lassen Municipal Utility District, Power and Water Resources Pooling Authority, Sacramento Municipal Utility District, the Trinity and Truckee Donner Public Utility Districts, the Metropolitan Water District of Southern California, and the City and County of San Francisco, Hetch-Hetchy.

The preliminary recommendation in Appendix C does not present the cap-and-trade program as the primary regulatory tool for achieving emission reductions. The cap-and-trade is offered as a “complement” to the other “regulatory measures for capped sectors” since emissions would be reduced via performance standards, efficiency programs, and direct regulations. (pp. C-12, C-59 to C-80). In fact, the two “overarching” reduction strategies for the electricity sector are reducing energy consumption and “limit[ing] emissions associated with electricity generation.” (pp. C-52, C-56). The Appendix states further that “energy efficiency will be the most effective tool” for reducing emissions. (pp. C-52, C-56).

Of the two regulatory components (i.e., the cap, and the trading), the cap is preeminent since it sets benchmarks for measuring the progress and achievement of meeting the 2020 emission reduction goal. The trading component, however, is offered as a *method* to enable entities to meet the cap in the most cost effective manner. The trading component occurs when one capped entity forgoes taking action to reduce emissions, and instead, purchases “allowances” attributed to the emission reduction actions taken by another capped entity. The underlying assumption is that this method will enable reductions at a lower cost. However, it is too early in the AB 32 process to make that critically important determination.

Guided by the Scoping Plan, ARB “shall adopt rules and regulations in an open public process to achieve the maximum technologically feasible and cost-effective greenhouse gas emission reductions from sources or categories of sources” (Health & Safety Code § 38560). CMUA requests that in addition to considering the preliminary cap-and-trade recommendation, the rulemaking process should also consider program designs that do not include mandatory participation in a market-based mechanism.

Section 4, Electricity and Natural Gas: The Coal Emission Reduction Standard should be rejected or, at least, modified to delete the requirement for mandatory divestitures of coal-based resources.

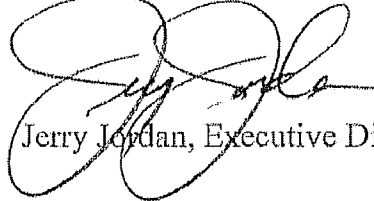
Overall, the discussion and preliminary recommendations contained in Section 4 make obvious ARB Staff’s recognition that many difficult issues confront the electricity and natural gas sectors. Appendix C acknowledges California’s dependence upon an “adequate, reasonably-priced, and environmentally-sound supply of energy.” (p. C-52). Among other things, Appendix C identifies that: (1) the electric sector will be required to deal with load growth as California’s population increases; (2) “fuel switching” will transfer transportation sector emissions to the electric sector; and (3) existing baseload resource technologies (natural gas, nuclear, coal, and large hydro-electric) will remain as mainstays of California’s grid at least through 2020. (p. C-54). In light of these commendable observations, CMUA was troubled to see the preliminary recommendation for a Coal Emission Reduction Standard (CERS) in the Draft Scoping Plan. It seemed incongruous with the remainder of the Draft Scoping Plan.

The CERS in Appendix C proposes to reduce coal-based GHG emissions 40% by 2020 by “requiring electric service providers to divest or otherwise mitigate portions of existing investments in coal-based generation.” (p. C-78). Also, Appendix C proposed other measures including forgoing the receipt of contracted-for generation, canceling of existing contracts, implementing carbon capture and sequestration, and purchasing offsets. It is not apparent that the authors considered whether or not the CERS might inhibit the reliable operation of existing power plants or prevent electric utilities from following prudent utility practices in regard to their owned/operated power plant assets. In addition, the CERS does not mention or advocate

improved maintenance actions as viable measures to reduce GHG emissions from powerplants. Among other goals, reliability-based maintenance is designed and intended to achieve environmental improvements including the prevention, reduction, and elimination of pollution or nuisances resulting from power plant operations. Arising from their efficacy in reducing GHG emissions and their significant environmental co-benefits, these measures should be encouraged by ARB and considered compliant with the SB 1368 emission performance standard by the California Energy Commission and California Public Utilities Commission. If ARB decides to include the CERS in the adopted Scoping Plan, ARB should: (1) delete any recommendations for mandatory divestitures; and (2) include recommendations to enable environmentally sustainable development by sanctioning measures for reducing emissions from existing coal-fired powerplants.

CMUA thanks ARB Staff in advance for considering the matters set forth above while developing the Proposed Scoping Plan.

Sincerely,

A handwritten signature in black ink, appearing to read "Jerry Jordan", is written over the printed name.

Jerry Jordan, Executive Director