



# CITY OF REDDING

## OFFICE OF THE CITY MANAGER

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August 1, 2008

Mr. Chuck Shulock  
California Air Resources Board  
1001 "I" Street  
Sacramento, California 95812

Subject: City of Redding Comments to the California Air Resources Board Draft  
Scoping Plan released June 26, 2008

Dear Mr. Shulock:

Thank you for the opportunity to comment on the California Air Resources Board's (CARB) Draft Scoping Plan (Plan) that was released June 26, 2008. The Plan outlines CARB's initial recommendations intended to guide California towards reducing greenhouse gases (GHG) to 1990 levels by 2020 per Assembly Bill 32 (AB 32), the "California Global Warming Solutions Act of 2006." The City of Redding (Redding) appreciates the collaborative effort that CARB has expended in developing this Draft Plan over the past year. As a medium sized city, Redding offers a unique perspective on the effect that the proposed Plan will have on the whole community, city services and municipal utilities, like the city's locally owned and operated electric utility, Redding Electric Utility.

Redding has a population of approximately 90,000 people and is located 2 ½ hours north of Sacramento at the northernmost end of the Sacramento Valley, situated along the I-5 corridor and the Sacramento River. Redding experiences extremely hot summer temperatures that often exceed 100 degrees. Redding is also a developing community with extensive open space and potential to grow, much like other Sacramento Valley cities. While Redding agrees with CARB's recommendation that local governments can play a key role in reducing GHG emissions, Redding emphasizes that the GHG reduction goals should vary by region in order to recognize both prior progress made by growing communities and the wide array of climate zones within the State.

The proposed rules that affect local land use decisions must be carefully considered and balanced with local community needs. If more infill development is to be part of the Plan's solution, then legislation must address how to finance the infrastructure necessary to serve the infill. Simply creating new mandates on local governments to reduce GHG emissions will not allow the necessary creativity and flexibility at the local level. The

final rulemaking should be focused around carefully considered solutions that recognize local government responsibilities, market realities and available resources.

Cities like Redding are already taking a leadership role in addressing climate change by saving energy, expanding the use of renewable power, and encouraging the purchasing of “green” products. Imposing costly mandates, especially with the current budget concerns facing cities, could undercut these local efforts. The CARB Plan should recognize this reality, and the Board should encourage the Legislature and the Administration to provide the necessary resources to help local governments achieve the goals outlined in AB 32. If measures are not in place to account for these key issues, growing cities, such as Redding, may in effect show an increasing carbon footprint, when in fact per capita emissions are actually decreasing.

Redding acknowledges that to achieve the GHG goals of AB 32, Californians must make some significant changes in the way we live and do business. However, Redding believes that local governments should be given the flexibility to implement custom designed programs that are the best fit for each community and region, utilizing community driven input into a city directed process. While leadership from local governments is vital in addressing city-wide climate change activities, such local leadership is also important for achievable targets to be set by the local community to ensure a balance between aggressive actions and realistic expectations. Redding asks that CARB acknowledge the potential impacts of the Plan to farming communities and rural cities, particularly when encouraging use of the “blueprint” planning model.

Typically, a city’s planning process is done with longer-term objectives in mind. Redding is concerned that CARB’s goal to update its Scoping Plan recommendations every five years doesn’t provide much certainty for the necessary long-term financial investments and commitments that will be needed to meet the AB 32 goals. While regular reviews of the economic impacts being borne from implementing AB 32 are necessary to ensure the State’s economic stability, the potential of changing the course of the Plan in the middle of the game creates a scenario where unproven initiatives may directly collide with effective long-term planning.

Finally, Redding is very concerned with the development of a cap-and-trade program. The evidence from around the world indicates that such complicated programs have a high degree of gaming potentials that may not ultimately reduce GHG. Such experiences suggest that CARB should first look into other direct regulation requirements that may indeed offer a greater likelihood to create effective GHG reductions. While development of a regional program is much more preferable to Redding than a California-only program, Redding encourages CARB not to rush such a complex cap-and-trade program until a federal system with provisions to prevent market manipulation are in place. Redding has been monitoring the development of the Western Climate Initiative and has not seen enough details from this process to verify that it will work without significant risks to our state.

Redding appreciates this opportunity to provide some brief comments. More detailed comments from Redding Electric Utility can be found in Attachment A to this letter, "Redding Electric Utility's Comments on the AB 32 Draft Scoping Plan."

If you have any questions or would like to discuss this matter further, please contact Elizabeth Hadley at (530) 339-7327.

Sincerely,

A handwritten signature in black ink, appearing to read "Kurt Starman", with a long, sweeping horizontal line extending to the right.

Kurt Starman  
City Manager

C: Honorable Mayor and City Council

## **ATTACHMENT A**

### **COMMENTS OF REDDING ELECTRIC UTILITY ON THE DRAFT SCOPING PLAN, JUNE 2008 DISCUSSION DRAFT, PURSUANT TO THE CALIFORNIA GLOBAL WARMING SOLUTIONS ACT OF 2006**

Redding Electric Utility (Redding) appreciates the opportunity to comment on the California Air Resources Board's (CARB) Draft Scoping Plan (Plan), its June 2008 Discussion Draft pursuant to Assembly Bill 32, the California Global Warming Solutions Act of 2006 (AB 32).

#### **Introduction**

Redding is a municipal electric utility that owns and operates local generation and distribution facilities for the benefit of the City of Redding (City). Since 1921, Redding has provided electric service for all of the electric needs of the City and currently serves approximately 43,000 customers. Redding has made a commitment to providing renewable energy to all of its customers, and has a current resource portfolio consisting of 27% California eligible renewable energy, or 52% when including Redding's use of large hydroelectric generation. Although Redding has conservatively used California's definition of qualified resources for its renewable portfolio standard (RPS) goal, Redding believes that all renewable generation that is greenhouse gas (GHG) neutral should receive credit as emissions reduction resources.

Redding is committed to continuing to work on developing the most efficient and economically feasible strategies and program designs that will maximize the GHG emissions reductions obtainable. Redding is concerned with increasing the regulatory burden above what is necessary to achieve the desired goals, and supports keeping the process as simple as possible. Redding would like to highlight the need to recognize the fast-growing regions within the Western Climate Initiative (WCI) partners' States as a real and unavoidable challenge, and thus encourages CARB and the WCI to base the effectiveness of any emissions reductions program using a carbon intensity approach for the electricity sector (pounds per Megawatt-hour instead of total tons per year). Redding raises this issue in the context of the CARB Scoping Plan because of the deference that the Draft Scoping Plan places on the WCI process and on integration with a regional program.

Redding appreciates the opportunity to comment on the Draft Scoping Plan, June 2008 Discussion Draft, and offers the following comments:

### **General Plan Guidelines:**

Redding is concerned that CARB's goal to update its Scoping Plan recommendations every five years doesn't provide enough certainty and durability for the necessary long-term financial investments that will be needed to meet the AB 32 goals. While regular reviews of the economic impacts being borne from implementing AB 32 are necessary to ensure the State's economic stability, the potential of changing the course of the Plan in the middle of the game creates a scenario where unproven initiatives may directly collide with prudent long term planning.

Redding is very concerned with the development of a cap-and-trade program. The evidence from around the world indicates that such complicated programs have a high degree of gaming potential and may not ultimately reduce GHG emissions. Such experiences suggest that CARB should first look into other direct regulation requirements that may indeed offer a greater likelihood to create effective GHG reductions. While development of a regional program is much more preferable to Redding than a California-only program, Redding encourages CARB not to rush such a complex cap-and-trade program until a federal system with provisions to prevent market manipulation are in place. Redding has been monitoring the development of the Western Climate Initiative and has not seen enough details from this process to verify that it will work without significant risks to our state.

Any proceeds from a carbon market or carbon fee should be used only for targeted research and development, energy efficiency, and mitigation of the cost impacts on consumers. Preferably, funds should be directed back to retail electric providers, as they are the entities that are best able to achieve the greatest GHG emissions reductions at the lowest possible cost to consumers.

CARB has recommended that the electricity sector participate in more GHG reduction measures than the remaining sectors. If the electric sector is to make reductions in the extremely quick timeframe being asked, then the regulatory agencies need to remove obstacles to enable meeting these goals. For example, Redding contracted for the power output from a renewable biomass facility in 2006. As of the writing of these comments, Redding has not received power from this renewable resource due to, among other things, delayed issuance of the necessary permits and strong pushback from the local environmental community. Similar community opposition has been seen with other renewable energy projects through environmental processes.

Redding encourages CARB to base the effectiveness of any emissions reduction program using a carbon intensity approach for the electricity sector (pounds per Megawatt-hour instead of total tons per year). Utilizing a carbon intensity

approach accounts for load growth that will undoubtedly occur due to increases in population and electrification from ports and fuel switching.

### **Recommendations:**

#### **1. California Cap-and-Trade Program linked to Western Climate Initiative**

Redding suggests that a regional cap-and-trade system not be rushed, but rather deferred a minimum of 5 years, until a system can be carefully and thoughtfully structured that will minimize cost to consumers. Rushing into a cap-and-trade program at the onset creates a scenario with unproven initiatives that could result in severe economic hardships.

Redding does not believe that CARB should expend the time and effort to develop a California-only cap-and-trade program. Based on the recent release of the Western Climate Initiative's (WCI) Cap-and-Trade Design Recommendations (July 23, 2008), there is no need for California to even think about implementing a California-only market. Redding has been monitoring the WCI process, and does not believe there have been enough details presented to verify that a regional WCI process will work without significant risks to California. Although the development of a regional program is much more preferable than a California-only program, Redding encourages CARB not to rush such a complex program until all States and Provinces in the WCI are prepared to fully participate, or until a federal system with provisions to prevent market manipulation are in place.

If a regional cap-and-trade must be considered, Redding supports a program that allows for the greatest flexibility in meeting emissions reduction obligations, while effecting real reductions. Redding agrees with CARB that emissions allowances should include the banking of excess allowances. Redding also believes that borrowing should be allowed as investing in innovative technologies during one compliance period that will reap significant reductions in the near future, meets the overall goals of AB 32. A safety valve is the most important attribute of a cap-and-trade program and the best method for cost containment. Even the highly regarded Federal Acid Rain Program has seen prices of Sulfur Dioxide credits swing over the past 30 months between \$1,629<sup>1</sup> per ton to \$88<sup>2</sup> per ton, a range of almost 2000%. This volatility is not something that California's consumers will tolerate.

Further, establishing a method to prevent manipulation of a cap-and-trade market such as Senator Feinstein's legislation (S. 2423), supported by Redding, that would establish federal oversight of a federal cap-and-trade program is essential. Specific

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<sup>1</sup> December 9, 2005, Settlement Price per Evolution Markets, Inc.

<sup>2</sup> July 15, 2008, Settlement Price per Evolution Markets, Inc.

attention must be given on the best approaches for designing and implementing safeguards against market manipulation and identifying and recommending mechanisms for market mitigation. Regular reviews of the economic impacts being borne from implementing a cap-and-trade program are necessary to ensure the State's economic stability and the impacts on electricity reliability.

Redding agrees that offsets should be allowed by capped entities to meet compliance obligations. Offsets should not be limited to 10% of an entity's compliance obligation, but should be encouraged as much as possible to ease the financial implications of carbon reductions. For example, it takes many years to design, permit, finance, and construct a new power plant. An electric utility could be improving the State's GHG emissions through offset projects in the interim until that project is completed.

Redding has serious concerns about the auctioning of allowances and supports minimizing the initial auction amount to no more than 5% of the total allowances to allow time for efficient markets to develop. Minimizing the use of an auction will protect consumers and ensure continued reliability of the electric system. Participation in an auction should also be limited to entities with a compliance obligation.

## 2. California Light-Duty Vehicle Standard

Redding does not have comments on this recommendation at this time.

## 3. Energy Efficiency

Redding agrees with the emphasis that CARB has placed on the use of energy efficiency measures to reach the State's GHG goals. However, a one-size-fits-all approach may not create the most effective GHG reductions. Redding emphasizes that the GHG reduction goals should vary by region in order to recognize both prior progress made by growing communities and the wide array of climate zones within the State. If measures are not in place to account for these key variations, growing cities, such as Redding, may in effect show an increasing carbon footprint, when in fact per capita emissions are actually decreasing.

## 4. Renewable Portfolio Standard

Redding has concerns over impacts that a 33% RPS by 2020 goal will have on grid reliability. In order to meet a 33% by 2020 RPS goal, the regulatory agencies will need to remove obstacles to enable meeting these goals. Redding encourages CARB to look at the definition of an approved RPS resource again in light of the State's desire to have carbon free electricity. Allowing large hydro, or at the very

least large hydro upgrades, to count towards meeting the RPS goals will fall in line with the GHG goal put forth in this Plan.

#### 5. Low Carbon Fuel Standard

Redding cautions CARB as it recommends a low carbon fuel standard because of the potential for unintended consequences, such as the false economy that has been created by corn based ethanol.

#### 6. High GWP Gases

The GHG inventory shows the electricity sector has already reduced SF6 emissions to below 1990 levels, thus CARB's efforts might be better applied to encouraging all utilities to pursue best management practices to reduce SF6 emissions while monitoring usage through our required mandatory reporting data and reassessing after five years.

#### 7. Sustainable Forests

Redding has been engulfed in smoke from the recent fires in and around Shasta County. The emissions from these fires have been recently compared to five years of emissions from the transportation sector. Reducing the vulnerability to wildfires is necessary for public safety, preservation of the State's forests, and the retention of forestry offset projects. If the capped sectors, such as the electric sector, are expending time, resources, and investments towards meeting the State's emissions reduction goals, having these efforts "go up in smoke" is unfair. Thus, Redding agrees with CARB in that forest biomass fuels will play a key role in the expansion of renewable resources and that in order to accomplish this goal, Redding asks that the State make every effort to encourage the use of biomass fuels.

#### 8. Water

Redding agrees with CARB in that water efficiency programs are important towards meeting the State's greenhouse gas goals. Redding cautions that the State remains cognizant of potential economic dislocations for the agricultural industry from water conservation impacts on local farmers.

#### 9. Vehicle Efficiency Measures

Redding supports the concept of vehicle efficiency measures to the extent that the electricity sector is assured credit for measures that involve vehicle electrification. Since the electricity sector will necessarily incur an increase in load from this type



of fuel switching, the reduction requirements imposed upon the electricity sector must include mechanisms to address and account for these transfers.

#### 10. Goods Movement

Significant efficiencies in goods movement will be achieved through electrification. Redding supports the concept of electrification to the extent that such measures are viable tools that can be utilized to achieve real GHG reductions. However, since the electricity sector will necessarily incur an increase in load from this fuel switch, the reduction requirements imposed upon the electricity sector must include mechanisms to address and account for these transfers.

#### 11. Heavy/Medium Duty Vehicles

Redding does not have comments on this recommendation at this time.

#### 12. Million Solar Roofs Program

Redding supports the approach of the current SB 1 regulations. With solar installation prices remaining high and the availability of tax credits uncertain, encouragement for more economical concentrated solar thermal should be encouraged.

#### 13. Local Government Actions and Regional Targets

Redding has a population of approximately 90,000 people and is located 2½ hours north of Sacramento at the northernmost end of the Sacramento Valley, situated along the I-5 corridor and the Sacramento River. Redding experiences extremely hot summer temperatures that often exceed 100 degrees. Redding is also a developing community with extensive open space and potential to grow, much like other Sacramento Valley cities. While Redding agrees with CARB's recommendation that local governments can play a key role in reducing GHG emissions, Redding emphasizes that the GHG reduction goals should vary by region in order to recognize both prior progress made by growing communities and the wide array of climate zones within the State.

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carefully considered solutions that recognize local government responsibilities, market realities and available resources.

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Redding acknowledges that to achieve the GHG goals of AB 32, Californians must make some significant changes in the way they live and do business. However, Redding believes that local governments should be given the flexibility to implement custom designed programs that are the best fit for each community and region, utilizing community driven input into a city-directed process. While leadership from local governments is vital in addressing city-wide climate change activities, such local leadership is also important for achievable targets to be set by the local community to ensure a balance between aggressive actions and realistic expectations.

Redding asks that CARB acknowledge the potential impacts of the Plan to farming communities and rural cities, particularly when encouraging use of the “blueprint” planning model.

#### 14. High Speed Rail

Redding does not have comments on this recommendation at this time.

#### 15. Recycling and Waste

Redding does not have comments on this recommendation at this time.

#### 16. Agriculture

Redding does not have comments on this recommendation at this time.

#### 17. Energy Efficiency and Co-Benefits Audits for Large Industrial Sources

Redding does not have comments on this recommendation at this time.

### **Other Measures Under Evaluation**

- **Transportation**

Redding does not have comments on this recommendation at this time.

- **Electricity – Coal Emission Reduction Standard**

Redding is a member of the M-S-R Public Power Agency (M-S-R). M-S-R is a fee owner of an interest in the coal-fired San Juan Generating Station located near Farmington, New Mexico that would be impacted by the proposed measure under evaluation. M-S-R and its California ratepayers have a \$400 million investment in the San Juan Generating Station and M-S-R has a fiduciary duty to its bondholders and ratepayers to protect that investment. Furthermore, if that investment is impaired or taken, M-S-R would have a legal requirement to remediate bonds under stringent timelines specified by contract and US Treasury regulations. Unlike entities which have power purchase contracts with out-of-state coal-based generation and whose obligations may end with the cessation of electricity deliveries, M-S-R is an owner and has obligations which survive the termination of electricity generation activities.

A forced divestiture of M-S-R's interest would not only subject M-S-R to a taking of its San Juan Generating Station asset, but subject it to the market for replacement power. Although M-S-R has and will continue to invest in renewable and carbon-free resources, the reliable operation of the electric system relies on base-load and dispatchable generation to supplant those non-dispatchable resources.

Redding agrees with the comments provided by M-S-R, and asks CARB to delete the proposed additional measure to require the divestiture of coal-based generation.

- **Industry**

Redding does not have comments on this recommendation at this time.

- **Carbon fees**

A carbon fee may be a viable option for those sectors not included within the cap, however it is essential that any fee structure be designed to avoid duplicative costs, specifically on those sectors that are called upon to make emissions reductions through other programs.

### **Possible Use of Revenue**

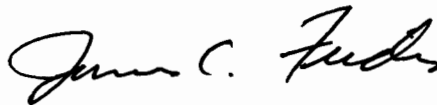
CARB has outlined many possible uses for revenue generated from this program. As stated above, Redding asserts that any revenue from a carbon market or carbon fee should be used for mitigation of the cost impacts on consumers. Funds should be directed back to retail electric providers, as they are the entities that are best able to achieve the greatest GHG emissions reductions at the lowest possible cost to consumers. If any funds are collected from Redding's customers, they should be applied to the local Redding community and managed by the Redding City Council. Thus, Redding agrees with the following possible uses of revenue recommended by CARB, as long as the revenue remains within the City:

- Reducing costs of emissions reductions or achieving additional emission reductions (through funding energy efficiency and renewable resource development);
- Incentives to local governments;
- Consumer rebates;
- Direct refund to consumers;
- Subsidies (to reduce immediate cost impacts to capped industries); and
- RD&D funding.

### **Conclusion**

Redding appreciates the opportunity to comment on the Draft Scoping Plan, June 2008 Discussion Draft. Redding supports the comments of the California Municipal Utilities Association, the Northern California Power Agency, and the M-S-R Public Power Agency. If you have any questions or would like to discuss further, please contact Elizabeth Hadley at (530) 339-7327.

Respectfully submitted,



James C. Feider  
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Redding Electric Utility  
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