BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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Order Instituting Rulemaking to Address Utility Cost and Revenue Issues Associated with Greenhouse Gas Emissions.	Rulemaking 11-03-012 (Filed March 24, 2011)

PROPOSAL OF LAURA B. NORIN ON BEHALF OF THE CALIFORNIA FARM BUREAU FEDERATION, THE AGRICULTURAL COUNCIL OF CALIFORNIA, THE CALIFORNIA LEAGUE OF FOOD PROCESSORS, AND THE AGRICULTURAL ENERGY CONSUMERS ASSOCATION (THE "AGRICULTURAL PARTIES") CONCERNING THE ALLOCATION AND USE OF GREENHOUSE GAS ALLOWANCE AUCTION REVENUES

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TABLE OF CONTENTS

I. INTRODUCTION **1**

II. POLICY OBJECTIVES FOR GHG ALLOWANCE AUCTION REVENUE **5**

A. AGRICULTURAL PARTIES' PROPOSED POLICY OBJECTIVES 6

i. Offset rate increases resulting from procurement-related GHG costs *6*

ii. Prevent economic leakage *7*

iii. Achieve administrative simplicity and understandability *8*

iv. Correct for market failures that lead to underinvestment in GHG mitigation activities and technologies *8*

v. Balance the objective of a carbon price signal with the goal of returning revenues to customers, recognizing that price signals are already present in rates *9*

vi. Maintain competitive neutrality across load serving entities *10*

vii. Reduce adverse impacts on low income households to the extent those impacts arise in the electricity sector *11*

B. OTHER POLICY OBJECTIVE 12

III. AGRICULTURAL PARTIES' PROPOSAL FOR GHG ALLOWANCE AUCTION REVENUE ALLOCATION **13**

A. DIRECTLY CREDIT REVENUE TO FULLY OFFSET EACH CUSTOMER'S GHG COST BURDEN .. 14

B. IF EXCESS FUNDING REMAINS, INVEST IN COST-EFFECTIVE GHG REDUCTION MEASURES 17

C. PERMIT GHG CREDIT RETENTION FOR CUSTOMERS THAT INSTALL RENEWABLE GENERATION 18

D. TRACK COSTS AND REVENUE IN THE IOU ERRA PROCEEDINGS 18

IV. IMPLICATIONS OF THE AGRICULTURAL PARTIES' PROPOSAL **20**

V. ALTERNATE PROPOSALS WOULD BE DIFFICULT TO IMPLEMENT FOR AGRICULTURAL CUSTOMERS **22**

VI. CONCLUSION **24**

ATTACHMENTS

ATTACHMENT A: RESUME AND STATEMENT OF QUALIFICATIONS OF LAURA NORIN

ATTACHMENT B: AIR RESOURCES BOARD. PROPOSED 15-DAY MODIFICATIONS, SEPTEMBER 12, 2011.

ATTACHMENT C: LETTER FROM THE AGRICULTURAL COUNCIL OF CALIFORNIA TO MARY NICHOLS, ARB, RE: CA AIR RESOURCES BOARD PROPOSED REGULATION ORDER FOR A CA CAP-AND-TRADE PROGRAM ON GREENHOUSE GAS EMISSIONS & MARKET-BASED COMPLIANCE MECHANISMS, DECEMBER 14, 2010.

ATTACHMENT D: AIR RESOURCES BOARD. RESOLUTION 10-42. DECEMBER 16, 2010.

ATTACHMENT E: AIR RESOURCES BOARD. STAFF PROPOSAL FOR ALLOCATING ALLOWANCES TO THE ELECTRIC SECTOR, JULY 27, 2011.

I. INTRODUCTION

The California Farm Bureau Federation, the Agricultural Council of California, the California League of Food Processors, and the Agricultural Energy Consumers Association, hereinafter referred to as the "Agricultural Parties," jointly present this proposal for the use of greenhouse gas (GHG) emission allowance revenues.

In this proceeding the California Public Utilities Commission (the Commission) is addressing the use of revenues generated from the sale of GHG emission allowances allocated to the investor-owned utilities (IOUs) by the California Air Resources Board (ARB). A September 1 scoping memo and ruling from the Assigned Commissioner and Administrative Law Judges in this proceeding requested that parties submit proposals recommending how to allocate these revenues in light of seven policy objectives.[1] The allocation method chosen by the Commission may have a large impact on electricity costs for farmers and food processors. For this reason, the Agricultural Parties consider it important to represent the needs of California's farmers and food processors as they relate to this proceeding.

The primary concern for the Agricultural Parties is that electricity rates may rise due to GHG legislation, increasing the cost of production for farmers and food processors. If costs were to increase, the California agricultural industry would be exposed to leakage as production may shift out-of-state or abroad, increasing demand for electricity in more carbon-intensive markets. The statute defines leakage as "a reduction in emissions of greenhouse gases within the state that is offset by an increase in emissions of greenhouse gases outside the state."[2] In the legislation implementing AB 32, lawmakers have specifically directed that any GHG reduction program be designed in such a way as to minimize leakage.[3]

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[1] Assigned Commissioner and Administrative Law Judges' Joint Scoping Memo and Ruling, R. 11-03-012, September 1, 2011. Hereafter referred to as the September scoping memo and ruling.

[2] Cal. Health & Safety Code §38505(j).

[3] Cal. Health & Safety Code §38562(b) (8).

California farmers and food processors are particularly vulnerable to leakage as a result of GHG regulation. Most compete in a global market and cannot control the pricing of their goods.[4] For example, California growers and food processors compete with tomato, peach, garlic, and onion growers and food processors in China, Europe, and South America as well as fresh and frozen produce from around the world. Since the world trade prices for these commodities will not adjust to reflect California's GHG regulation costs, California growers and food processors will not be able to pass on their cost increases to consumers. In fact, increased food processing costs are more likely to be passed on to growers rather than to consumers. In a recent example, increasing imports of canned peaches from China have endangered the California peach industry with growers and processors alike struggling to compete with international supplies being shipped to local retail outlets from across the globe.[5]

Higher electricity prices in California are not likely to produce significant GHG reductions in the agricultural and food processing sectors and could even increase global emissions. Many California food processors are already employing the cleanest forms of fuel and the newest technology designed to conserve power and reduce emissions. They therefore have limited opportunities for further emission reductions. Similarly, in the face of intense price competition from growers in other states and abroad, growers are already in the habit of restricting their energy usage as much as feasible. In addition, energy usage among growers is concentrated in water pumping,[6] which cannot be reduced without putting a farmer's crops and livelihood at risk. For food processors, there is no choice but to process food as it is harvested. Nature, not markets, determines the yields, and processors must contend with variable harvests, sometimes by several million tons. Energy use is dictated by these yearly variable yields and has a direct relation to how much food can be processed. These factors give farmers and food processors little-to-no opportunity to further increase efficiency or reduce energy usage to offset rising costs.

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

[5] California Canning Peach Association, "Peach Fuzz," Vol. 40, No. 9, November 12, 2010.

[6] California Energy Commission, California's Water - Energy Relationship, CEC-700-2005-011-SF, November 2005, Table 1-4, page 13; California Energy Commission, California Energy Demand 2010-2010 Adopted Forecast, CEC-200-2009-012-CMF, December 2009, Statewide Demand Forecast Forms, Form 1.1.

About the Agricultural Parties

The California Farm Bureau Federation (CFBF) is California's largest farm organization with 76,500 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.

The Agricultural Council of California (Ag Council) is a public policy association representing more than 15,000 farmers across California, ranging from farmer-owned businesses to the world's best-known brands. Ag Council members participate in domestic and international markets, sending products throughout the United States and to over 100 countries.

The California League of Food Processors (CLFP) is a not-for-profit trade association representing food processors with production facilities in California. CLFP's purpose is to foster a favorable environment for the growth and strength of the industry within the state. Member companies are primarily canners, freezers, dryers, and dehydrators of fruits and vegetables. Additional processor members include cheese makers, snack foods, juice bottlers, and specialty processors of a variety of food products. Members operate over 150 processing plants located throughout the State of California.

The Agricultural Energy Consumers Association (AECA) is a nonprofit organization representing the energy interests of California agriculture. AECA was founded in 1991 by growers and other members of the agricultural community concerned about electricity costs. AECA represents the collective interests of the state's leading agricultural associations, including numerous agricultural water districts. AECA's membership is broad based, reflecting family farmers from Redding in the north to San Diego in the south who grow crops ranging from alfalfa to walnuts. Through its members and membership associations, AECA represents in excess of 40,000 California agricultural producers. AECA seeks to ensure that the agricultural community receives needed energy services at efficient, equitable, and competitive rates. AECA also seeks to advance the Commission's broad social and economic goals.

Moreover, the nature of these industries makes it very difficult to shift operations to reduce energy consumption. For example, food processors use extremely specialized facilities that are dedicated to the specific commodity processed. Should rising energy prices make the cost of producing food uneconomical, a processor cannot enter a less energy intensive type of manufacturing without millions in costs to overhaul the entire plant. In addition a food processor cannot interchange between types of raw materials—to shift, for example, from tomato canning to almond processing—without major investments. Growers are similarly tied to the opportunities available on their lands.

Over 90% of the farms in California are classified as small businesses, and more than half sell less than $25,000 of agricultural products per year.[7] These farmers have limited financial resources to accommodate the state's high and rising electricity costs. An increase in costs that puts more California farmers or food processors out of business would effectively move or expand production out-of-state or abroad, most likely to areas with more carbon-intensive power. Higher prices could therefore increase global GHG emissions.

For these reasons, increasing electricity rates for food growers and processors would likely not contribute to AB 32 GHG reduction goals. There are, however, other opportunities for significant GHG reductions from the agricultural sector. For example, from 2005-2007 Pacific Gas and Electric Company (PG&E) and Southern California Edison (SCE) had a highly successful rate discount program to promote the conversion of pumping engines powered by diesel, gasoline, propane, or butane to cleaner electric pumps. In PG&E's service territory alone, the program facilitated the conversion of more than 1,000 pumps at an estimated savings of 650,000 tons of GHG emissions.[8] To the knowledge of the Agricultural Parties, conversions have stalled since the end of this program, and growers have indicated that a new discount program would make further conversions cost-effective.

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[7] USDA National Agricultural Statistics Service. *Census of Agriculture*, 2002. (Pursuant to California Government Code Section 11342.610 an agricultural business with gross annual receipts under $1 million is deemed a small business if independently owned and operated and not dominate in its field of operation.)

[8] PG&E News Release. "PG&E Receives Two Governor's Environmental and Economic Leadership Awards." December 5, 2006.

A further potential for GHG reductions in the agricultural industry lies in development of distributed renewable generation. In this proceeding the Commission has the opportunity to leverage cap-and-trade revenue to accelerate development of small hydroelectric and biogas power. Increased development of these technologies would help to further California's goals of preventing GHG emissions and, in the case of biogas power, would also remove existing GHG emissions from the environment.

The Agricultural Parties encourage the Commission to keep these considerations in mind in evaluating revenue allocation methodologies. With regard to the agricultural sector, the best opportunities for GHG reductions are to keep rates unchanged and to provide opportunities and incentives for diesel conversions and for renewable distributed generation. Additionally, funds could be granted towards projects that provide research and development into cost-effective technologies that will further reduce emissions of boilers and improve energy efficiency in California's food processing plants. This proposal outlines how these priorities can be achieved while meeting nearly all of the Commission's policy objectives for the allocation of allowance auction revenue.

II. POLICY OBJECTIVES FOR GHG ALLOWANCE AUCTION REVENUE

The September scoping memo and ruling identified seven policy objectives that the Commission will consider in evaluating proposals for the allocation of allowance auction revenue. The ruling requested that parties propose other relevant objectives and rank all objectives in order of importance. The Agricultural Parties support the Commission's proposed objectives with a few refinements and offer an additional objective for consideration. These objectives are addressed below in order of importance.

As a preliminary matter, the Agricultural Parties encourage the Commission to retain its focus on the electricity sector. Certain objectives may tempt the Commission to move beyond this sector to address GHG cost impacts experienced by ratepayers in other areas, such as GHG costs embedded in the price of food, transportation fuels, and other goods and services. The Commission has neither the jurisdiction nor the expertise to engage in this effort. If it wishes to

mitigate GHG costs for society generally, it can best serve this goal by addressing GHG costs in electricity rates.

A. Agricultural Parties' Proposed Policy Objectives

The Agricultural Parties recommend that the following objectives be prioritized in evaluating proposals for the allocation of allowance auction revenues to ratepayers.[9]

i. Offset rate increases resulting from procurement-related GHG costs (Agricultural Parties' proposed policy objective)

The Commission has for many years asked consumers to bear some of the highest electric rates in the nation[10] to support the state's environmental goals. An incremental and material increase in rates as a result of AB 32 measures would be difficult for many consumers to bear in the best of times and certainly as the state and the nation lie in recession and potentially worsening economic conditions. In recognition of these conditions, the Commission should balance its proposed policy objectives under a single overarching objective: **to use auction revenues to fully offset each customer's electric bill increase resulting from procurement-related GHG costs**. No single principle will better assure that the allowance value is used "for the benefit of retail ratepayers" as directed in ARB's proposed regulation[11] or better account for the cost burden underlying the allowance allocation to the electric sector.

Mitigating rate increases in proportion to each ratepayer's GHG cost burden also achieves five other objectives identified in the ruling: it preserves the carbon price signal; prevents economic leakage; reduces adverse impacts on low income households; maintains competitive neutrality across load serving entities; and achieves administrative simplicity and understandability. By shaping its goals in this way, the Commission can best carry out the objectives of AB 32 in a manner that acknowledges and recognizes the costs currently borne by ratepayers and the

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[9] The Agricultural Parties worked with the Large Users Group in the development of these objectives and, accordingly, there are similarities between this discussion and the discussion of objectives in the Large Users Group proposal. These discussions, however, are not identical, and each should be considered individually. Differences in language and scope between the two proposals should not necessarily be interpreted as disagreements.

[10] U.S. Energy Information Administration, Detailed Sales and Revenue Data by State, Back to 1990, Form EIA-826.

[11] Air Resources Board. Proposed 15-Day Modifications, September 12, 2011, §95892(d)(3), see Attachment B.

practical impacts that incremental costs can have for California agriculture and for other business and residential customers.

ii. PREVENT ECONOMIC LEAKAGE (Ruling Objective #2)

One of the key objectives identified in the ruling is the prevention of economic leakage, specifically referring to "concerns regarding Emission Intensive Trade Exposed industries shifting production to jurisdictions outside of the cap-and-trade regime to avoid carbon costs, that, owing to the regional or global nature of the market in which they are [sic] operate, they are unable to pass on to customers."[12]

As described in the introduction, the agricultural and food processing industries are vulnerable to leakage if production costs increase. While farmers are not classified by ARB as an Emission Intensive Trade Exposed (EITE) industry and food processors have been provisionally designated as medium leakage risk,[13] food growers and processors are highly exposed to electricity price changes.[14] Most of California's growers and food processors operate in a global market and have no control over the prices received for their goods.[15] In the event of a further increase in electricity prices due to GHG regulations, California's agricultural industry will struggle to compete with producers outside of the GHG regulation jurisdiction, pushing more production to other states and abroad. This economic leakage would result in an overall increase in GHG emissions.

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[12] September scoping memo and ruling, page 10.

[13] Air Resources Board. Proposed 15-Day Modifications, September 12, 2011, Table 8-1, p. A-123, see Attachment B.

[14] ARB's draft regulation classifies food processing as a medium leakage risk. The Ag Council does not agree with this designation. Letter from the Agricultural Council of California to Mary Nichols, ARB, re: CA Air Resources Board Proposed Regulation Order for a CA Cap-and-Trade Program on Greenhouse Gas Emissions & Market-Based Compliance Mechanisms, December 14, 2010, see Attachment C.

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

The Agricultural Parties' proposed policy objective to fully offset rate increases from procurement-related GHG costs would help prevent AB 32-driven economic leakage. Even if the Commission determines that electricity rates should increase for some customer classes, the Commission must ensure that electricity costs do not increase for agricultural customers, food processors, and other customer classes at risk for economic leakage. Allowing such leakage and the resulting increase in global GHG emissions would be in direct opposition to the legislation that implemented AB 32.[16]

iii. ACHIEVE ADMINISTRATIVE SIMPLICITY AND UNDERSTANDABILITY (Ruling Objective #7)

Administrative simplicity and understandability are fundamental to successful program design. A complex allocation methodology would increase administrative costs, thereby reducing the revenues available to meet the Commission's goals. It would also place a greater burden on all parties to the proceeding, potentially requiring annual workshops or filings to verify that allowance revenues were being properly allocated. To the extent that the allocation methodology limits the use of forecasting, true-ups, baselining, etc., administrative costs for all parties will be kept to a minimum and the allocation of GHG costs and revenues will be more predictable, providing greater rate certainty. The Commission should prioritize this objective as a part of its evaluation.

iv. CORRECT FOR MARKET FAILURES THAT LEAD TO UNDERINVESTMENT IN GHG MITIGATION ACTIVITIES AND TECHNOLOGIES (Ruling Objective #5)

The goal of AB 32 is to reduce the state's GHG emissions. It is therefore appropriate for the Commission to allocate funding to correct for market failures that lead to underinvestment in GHG mitigation activities and technologies. However, this funding should be allocated in accordance with the following principles:

[16] Cal. Health & Safety Code §38562(b) (8).

1. The Commission should retain its focus on the electricity sector. The market failures that the Commission seeks to correct should be confined to energy efficiency, renewable generation, and other electricity-related GHG mitigation activities and technologies.
2. Auction revenues should first be used to fully offset rate increases resulting from procurement-related GHG costs. Activities to correct market failures should in no way infringe on the funding needed to make customers whole from cap-and-trade costs.
3. Programmatic and incentive funding should be implemented and allocated in a manner that achieves administrative simplicity and understandability.

These objectives could be met with incentive funding or other programming to reduce energy-related GHG emissions *using funding available after ratepayers have been made whole from AB 32-related costs*. The diesel pump conversion program described above and incentive funding for biogas, which removes a powerful GHG from the atmosphere while also generating renewable energy, are programs that should be considered, along with other cost-effective programs that assist growers, processors, and other customers with GHG reductions, energy efficiency, and renewable energy. All programs should be implemented in an administratively simply manner.

v. BALANCE THE OBJECTIVE OF A CARBON PRICE SIGNAL WITH THE GOAL OF RETURNING REVENUES TO CUSTOMERS, RECOGNIZING THAT PRICE SIGNALS ARE ALREADY PRESENT IN RATES

(Ruling Objective #1)

The carbon price signal referred to in this objective is an increase in rates to reflect the cost of GHG emissions from power generation. The rate increase may provide a signal to customers to reduce their electricity consumption.[7]

This carbon price signal is already firmly embedded in rates, as the September ruling explains:

> It should be noted that the utility rates already include a number of costs that could be reasonably characterized as greenhouse gas mitigation costs…To the degree reducing GHG emissions provides a central rationale for the RPS and other programs, one could

[7] September scoping memo and ruling, Attachment A, at A-2.

> argue that rates, particularly upper tier residential rates already exceed the price that would reflect the marginal carbon price under cap-and-trade without the RPS and other mandates.[8]

Indeed, the utilities spend substantial sums each year on energy efficiency incentives, low-income energy efficiency programs, the California Solar Initiative and other renewable distributed generation incentives, and renewable energy purchases.[17] By placing these carbon-reduction costs in rates, utilities provide ratepayers with a carbon price signal that incentivizes lower consumption.

In addition, utility rate structures further strengthen the carbon price signal. Customers on time-of-use rates receive a targeted signal to reduce usage during peak periods when GHG emission rates are highest. Residential customers receive a broader signal through the tiered rate structure to reduce consumption in all hours. These carbon signals are firmly embedded in utility rate structures and will be expanded over the next several years as time-of-use rates are extended to more customers and other dynamic pricing rate programs are rolled out.

The Commission therefore does not need to add or augment a price signal; it needs only to continue to maintain the existing carbon price signal in rates.

vi. MAINTAIN COMPETITIVE NEUTRALITY ACROSS LOAD SERVING ENTITIES (Ruling Objective #6)

The Agricultural Parties support the objective of maintaining competitive neutrality. If the Commission adheres to the Agricultural Parties' overarching objective to fully offset rate increases from procurement-related GHG costs and returns allowance revenues via a nonbypassable bill credit, competitive neutrality among load serving entities will be maintained in an administratively simple manner.

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[8] September scoping memo and ruling, Attachment A, at A-4.

[17] For example, PG&E estimates that in 2011 it will spend $136 million on the California Solar Initiative and the self generation incentive program, $120 million on energy efficiency measures, and $93 million on low-income energy efficiency. In addition, PG&E and the other IOUs are paying premiums to procure renewable power in place of gas-fired power. Pacific Gas and Electric Company, Advice Letter 3727-E-A, December 30, 2010, Table 2, page 9.

vii. REDUCE ADVERSE IMPACTS ON LOW INCOME HOUSEHOLDS TO THE EXTENT THOSE IMPACTS ARISE IN THE ELECTRICITY SECTOR

(*Ruling Objective* #7)

The Commission is rightly concerned about adverse impacts on low-income households, particularly under current economic conditions. In fact, ARB Resolution 10-42 specifically notes that CPUC should consider "*the potential for impacts from this program on low-income customers*."[18] In exercising this concern, however, the Commission must stay squarely within its scope of jurisdiction and expertise. Any solution for low-income households should focus solely on the impacts of GHG costs in electricity rates and should be designed consistent with the following four considerations:

First, low-income customers will generally not face electric rate increases on account of the cap-and-trade program because California law and Commission rate-protection and targeted energy efficiency programs shield low-income customers from rate increases.[19] In addition, the Commission has the opportunity to eliminate cap-and-trade-related electric rate increases for all customers by using GHG allowance revenues to offset the utilities' allowance costs.

Second, since low-income customers will generally not face electric rate increases, any cap-and-trade cost burden would primarily result from increases to non-electric greenhouse gas costs, such as greenhouse gas costs embedded in the cost of gasoline and transportation greenhouse gas costs embedded in the cost of food and consumer goods. These costs are outside of the Commission's areas of expertise and should therefore not be addressed using electricity-related revenues that are needed to shield all customers from electricity-related cap-and-trade impacts.

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[18] Air Resources Board. Resolution 10-42. December 16, 2010, page 13, see Attachment D.

[19] For example Section 739.1 of the Public Utilities Code and SB 695 (Ch. 337, Statutes of 2009) established criteria for the "California Alternate Rates for Energy" or CARE program and D.04-02-057 in Commission proceeding R.01-05-047 established the Family Electric Rate Assistance program. Both of these programs shield low-income customers from rate increases. Low-income energy efficiency programming further shields willing customers from rate increases by providing all cost-effective energy efficiency upgrades free of charge.

Third, the extent of the non-electric cap-and-trade cost burden to low-income customers and the distribution of this cost burden among individuals are highly uncertain and would require careful study to determine. An agency with the appropriate expertise to evaluate these impacts and to design methods to efficiently and effectively shield low-income customers from this cost burden should be responsible for any such program. The Commission does not have this expertise.

Fourth, as the lead agency for cap-and-trade regulations, the ARB is the appropriate agency to address distributional impacts related to the cap-and-trade program. The ARB will be monitoring the non-electricity cost impacts of cap-and-trade and, together with experts from appropriate state agencies or non-governmental organizations, will seek to design appropriate mechanisms to protect low-income customers from adverse outcomes and to allocate funding to affected customers. The ARB will have the ability to address these impacts using allowance auction revenues from the non-electricity sectors. These are the appropriate revenues to use, since any impacts that may arise are likely to derive from the costs of gasoline, food, and other non-electricity goods.

Consistent with these considerations, the Commission should mitigate exposure of low-income customers to electric rate increases resulting from GHG costs. The ratemaking methodology proposed by the Agricultural Parties achieves this objective.

B. Other Policy Objective

The September scoping memo and ruling identifies an additional objective not addressed above: Distribute Revenues Equitably Recognizing the Public Asset Nature of the Atmospheric Carbon Sink (Ruling Objective #3). The Agricultural Parties believe that it would be impractical and contrary to ARB's directive to distribute revenues in accordance with the public asset nature of the atmospheric carbon sink.

The Commission has a history of adopting sector-related, practical allocators for costs and revenues, such as the marginal cost of generation in the electricity sector and cold-year throughput in the natural gas sector. Adopting an allocator based on the assumption that "the

sky belongs to everyone" would stretch the Commission's ratemaking process beyond recognition.

In addition, the objective suggests that other than EITE customers, business and industrial customers would be left without coverage for their indirect GHG costs. This result would run directly contrary to ARB's directive in Resolution 10-42 that "*the proposed allowance value directed to the electric distribution utilities is used for the benefit of residential, commercial and industrial ratepayers.*"[20] Likewise, this approach would undermine the goals of mitigating the cap and trade impact on all ratepayers and preventing leakage.

The "public asset" objective should therefore be dismissed as impractical and contrary to ARB's directive.

III. Agricultural Parties' Proposal for GHG Allowance Auction Revenue Allocation

In adherence with the objectives described above, the Agricultural Parties propose that auction revenues be directly credited to all customers such that any increase in cost to a particular customer due to GHG allowance purchases is equally balanced by credits to that customer from allowance auction proceeds. In the event that proceeds from GHG allowance auctions exceed the cost burden borne by customers, the Agricultural Parties propose that excess funds be used to support cost-effective GHG reduction programs. In addition, the Agricultural Parties propose that customers that install renewable distributed generation be permitted to retain the allowance credits that would have been awarded to them but for their reduction in grid purchases.

[20] Air Resources Board. Resolution 10-42. December 16, 2010, page 13, see Attachment D. Agricultural customers are implicitly included in the broad categories of commercial and industrial non-residential customers.

A. Directly Credit Revenue to Fully Offset Each Customer's GHG Cost Burden

The Agricultural Parties' proposal is similar to that proposed in the Joint Motion of Pacific Gas and Electric Company, Southern California Edison, and San Diego Gas and Electric Company in this proceeding.[21] Under this proposal the utilities would directly credit GHG allowance revenues to retail electric customers in proportion to the cost borne by these customers.

The Agricultural Parties support the IOUs' proposal to determine customers' cost burdens by allocating overall compliance costs in the same manner in which other generation revenue requirement changes are allocated—through the System Average Percentage Change (SAPC) methodology. An illustrative example of this method is shown in Table 1 below. This method allocates GHG costs to each customer class based on an equal percentage of functional revenues from that customer class (column B).

[21] Joint Motion of Pacific Gas and Electric Company, Southern California Edison, and San Diego Gas and Electric Company for Interim Decision to Authorize use of Greenhouse Gas Allowance Revenues for 2012 Electricity Rates, R.11-03-006, May 11, 2011 ("Joint Motion").

Table 1: Proposed Allocation of a Hypothetical $180 Million Cost Burden to Each Customer Class

(A)	(B)	(C)
	Bundled SAPC Allocation[22]	**Additional Gen Costs**[23]
Residential	35.13%	$63,237,044
Small	11.87%	$21,371,936
Medium	15.13%	$27,238,198
E-19	15.60%	$28,081,352
Streetlights	0.46%	$821,233
Standby	0.35%	$635,615
Agriculture	5.29%	$9,523,179
E-20	16.16%	$29,091,444
System	**100.00%**	**$180,000,000**

The Agricultural Parties recommend that these GHG costs be allocated within each customer class based on an equal percent change methodology applied to the generation rate components: if the GHG costs increase the utility generation revenue requirement allocated to a customer class by 2%, each generation rate component for each rate schedule within the customer class should be increased by 2%.[24] The Agricultural Parties further recommend that each customer receive a non-bypassable bill credit that completely offsets the GHG costs incurred in that billing cycle. This allocation methodology is illustrated for a hypothetical agricultural customer in Table 2.

[22] Rate Impact Model of Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas and Electric Company Pursuant to Assigned Commissioner and Administrative Law Judges' Joint Scoping Memo and Ruling Dated September 1, 2011, AB 32 Costs and Credit Allocation – with alternatives – 3.xls ("Rate Impact Model"), tab Alt. Allocation Methods D6:D14.

[23] The additional generation costs depicted here are based on the illustrative example of costs shown in the Joint IOU's Exhibit and modified for the SAPC allocation factors shown in column B. They are for illustrative purposes only. Joint Exhibit of Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas and Electric Company Pursuant to June 2, 2011 Administrative Law Judge's Ruling, R. 11-03-012, June 20, 2011.

[24] Residential usage that does not exceed Tier 2 and CARE customers' electricity usage are protected from rate increases by statute; therefore this portion of usage would incur no rate increase. Accordingly, residential rates for higher-tier usage should be increased to cover the Tier 1 and Tier 2 GHG costs. Rates for non-CARE customers should be increased to cover CARE GHG costs consistent with the allocation of other CARE subsidy costs.

Table 2: Illustrative Example of the GHG Revenue and Credit Allocation to an Agricultural Customer

	Rates without GHG Adder[25]	Rates with 2% GHG Adder[26]
Generation Demand Charges ($/kW)		
Summer	1.04000	1.06080
Generation Energy Charges ($/kWh)		
Peak Summer	0.11670	0.11903
Off-Peak Summer	0.04668	0.04761
Part-Peak Winter	0.04986	0.05086
Off-Peak Winter	0.04151	0.04234
Sample Bill (summer)		
Demand Costs (200 kW)	$208.00	$212.16
Energy Costs (40 MWh on-peak; 15 MWh off-peak)	$3,617.70	$3,690.05
Total Summer Bill	$3,825.70	$3,902.21
Total GHG Cost Increase		$76.51[27]
Non-Bypassable Bill Credit		$76.51[28]

For direct access and Community Choice Aggregation customers, the bill credit should be calculated based on the GHG rate increase that the customer would have incurred had the customer been on bundled service. This would maintain competitive neutrality across load-serving entities.

The key element of the Agricultural Parties' proposal is that each customer's GHG costs are completely offset by a bill credit in the same billing cycle as the costs are incurred. As the IOUs stated in their Joint Motion, allowance revenue returned on a fixed basis (i.e., as an equal dollar

[25] PG&E AG-4A tariff effective September 2011.
[26] Each generation rate component increased by 2%.
[27] $3,902.21-$3,825.70=$76.51.
[28] The non-bypassable bill credit is set equal to the total GHG cost increase.

amount per customer or per meter) would create inequitable impacts and arbitrary results for different customers.[29] Returning the allowance revenue to customers at any time other than the billing cycle in which costs are incurred could cause cash flow burdens for customers.

Another important element of the proposal is that it sets the refund level at ratepayers' actual cost burden. ARB staff's proposal would provide allowances to electric utilities *in excess of ratepayers' cost burden:* if allowances are valued at $20/metric ton, the proposal would provide the electric IOUs with over $65 million in revenues in excess of expected ratepayer cost burden in 2013.[30] In the event that auction proceeds exceed ratepayers' cost burden, the Agricultural Parties propose that ratepayers be allocated allowance auction proceeds only to the level required to completely offset their allowance costs. Excess revenue should be used for cost-effective GHG reduction programs and incentives.

B. If Excess Funding Remains, Invest in Cost-Effective GHG Reduction Measures

After all customers have been credited allowance auction proceeds commensurate with their cost burden as described above, any excess funds should be used to invest in cost-effective GHG reduction measures that help meet AB 32 goals (subject to the 5% cushion requirement described in Section D below). Possible uses of these funds include reinstating the successful diesel conversion program, providing incentives for the installation of biogas power projects and other GHG reducing technologies (including technologies that could be used by the agriculture and food processing sectors), low-income energy efficiency programs, and other renewable distributed generation and energy efficiency programs.

[29] Joint Motion, page 3.

[30] Calculated from the California Air Resources Board Staff Proposal for Allocating Allowances to the Electric Sector, July 27, 2011. http://www.arb.ca.gov/regact/2010/capandtrade10/candtappa2.pdf proposed allowance allocations, pp. 7 and 12 and the Air Resources Board. Proposed 15-Day Modifications, September 12, 2011, pages A-118, A-140, and A-151, see Attachments B and E.

C. Permit GHG Credit Retention for Customers that Install Renewable Generation

A customer that invests in renewable distributed generation would reduce overall GHG emissions by generating renewable electricity to displace utility power. This renewable self-generation would reduce the number of allowances that the utility must procure, but it would not reduce the number of allowances that ARB would provide to the utility.[31] Allowing customers to retain the GHG allowance credits associated with the emissions avoided by their renewable installations would create a new revenue stream to help offset the cost of the installations. At the same time, it would not infringe on the funding needed to keep remaining customers whole, since the number of allowances removed from the utility pool would be fully offset by the reduction in demand for utility generation.

To maintain administrative simplicity for the IOUs and for customers, the IOUs should provide GHG bill credits for emissions avoided by renewable distributed generation systems with utility-metered output. The utility would calculate a customer's refund by applying the customer-class specific GHG rate adders to the customer's utility-purchased electricity plus the customer's self-generated electricity.[32] Since the utility would have direct knowledge of the output of the distributed generation facility, there would be no need to estimate the output from a historical year or other benchmark.

D. Track Costs and Revenue in the IOU ERRA Proceedings

The Agricultural Parties' proposal would not require tracking of funds for bundled customers, since each customer's GHG costs would be fully offset on the same bill in which they appear. The only tracking that would be required is the cost of the allowances procured by the utility and the proceeds the utility received from auctioning the allowances provided by ARB. The

[31] Under ARB's proposal, the number allowances a utility will receive in each year is to be set prior to the adoption of the regulation and will not be adjusted for subsequent load departures. Air Resources Board. Proposed 15-Day Modifications, September 12, 2011, page A-118, see Attachment B.

[32] The refund would be equal to the total bill increase from the GHG rate adders, applied as a refund. For example, if the bill increase calculated from the customers' utility-purchased electricity plus the customer's self-generated electricity were equal to $65, the bill credit would be $65.

Agricultural Parties propose that this tracking be conducted as part of the IOUs' ERRA proceedings. This is consistent with the utility proposal outlined in the Joint Motion.[33]

In particular, the Agricultural Parties propose that each IOU submit a forecast of projected allowance costs and revenues as part of its annual ERRA filing. The IOUs would use these forecasts to determine the GHG adders. At the end of the year these forecasts would be trued up in accordance with actual costs and revenues to determine the level of revenue in excess of costs and the difference between actual and forecast GHG costs for that period. For direct access and Community Choice Aggregation customers, the following year's GHG credits would be adjusted by any difference between actual and forecast GHG costs.

The number of allowances that the utilities will need for their own compliance purposes will vary year-to-year based on the availability of hydroelectric power, load conditions, and other difficult-to-predict parameters. In addition, until the cap-and-trade market matures, the proceeds that the utilities will obtain from allowance sales will be highly uncertain. For these reasons, the Agricultural Parties propose that allowance auction revenue collected by each utility in excess of ratepayer cost burden be deposited into an interest-bearing balancing account until the funds in the account reach a value of 5% of expected ratepayer costs for the following year. In the event that the ratepayer cost burden cannot be covered by allowance auction revenue, the IOUs would be permitted to use funds from their balancing accounts to ensure that rates would not increase. Once a balancing account had been funded to 5% of the expected annual ratepayer cost burden, additional excess revenues for that IOU would be released for use in GHG-reduction programs, as described above. This method will ensure that all ratepayers are protected from cost increases. It maintains administrative simplicity by using the existing ERRA process.

[33] Joint Motion, page 4.

IV. IMPLICATIONS OF THE AGRICULTURAL PARTIES' PROPOSAL

The Agricultural Parties' proposal provides for the allocation of GHG allowance auction revenue in a manner that is consistent with ARB's directives for implementing AB 32 and with the scope of the Commission's jurisdiction.

The proposal would offset rate increases for each customer and would therefore have no net impact on retail or wholesale rates. It would also achieve six of the seven objectives outlined in the September ruling. The only objective not addressed by this proposal is the objective of recognizing the public asset nature of the carbon sink. As described above, the Agricultural Parties believe that meeting this objective would be impractical and contrary to ARB's directive.

Each of the objectives accomplished is addressed below:

1. **Offset rate increases resulting from procurement-related GHG costs**: The primary function of the Agricultural Parties' allocation proposal is to ensure that allowance auction revenue is used to fully offset each customer's cost burden resulting from procurement-related GHG costs. This objective is fully accomplished.
2. **Prevent economic leakage**: This proposal will not result in an increase in electricity costs for any customer, EITE and non-EITE alike. This will prevent the economic and GHG leakage that could have resulted from GHG-related electric rate increases.
3. **Achieve administrative simplicity and understandability**: This proposal emphasizes administrative simplicity and understandability by employing a simple methodology for the calculation of ratepayer cost burden. The methodology requires minimal amounts of forecasting and avoids calculations of baselines and tracking of individual customer accounts. It leverages existing ERRA procedures to minimize administrative burden.

4. **Correct for market failures that lead to underinvestment in carbon mitigation activities and technologies**: This proposal allows customers that install renewable distributed generation to retain the GHG credits associated with their installations, thereby making it more cost-effective for customers to install these GHG-reducing technologies. In addition, this proposal provides for allowance auction proceeds collected in excess of ratepayer costs to be allocated to cost-effective GHG reduction programs that are within the scope of the Commission's jurisdiction. Examples of these programs include the diesel pump conversion program, incentive funding for biogas, and research and development seeking further, cost-effective ways to reduce GHG emissions from boilers. Providing funding for programs such as these would correct for market failures currently leading to underinvestment in GHG mitigation activities and technologies.
5. **Preserve the carbon price signal**: Customers of the California IOUs already experience a substantial carbon price signal in rates. Because this proposal would have no net impact on rates it would preserve the carbon price signal that is already present.
6. **Maintain competitive neutrality across load serving entities**: This proposal provides for equal treatment of bundled customers, direct access customers, and Community Choice Aggregation customers by returning allowance auction revenue to all customers in a given customer class at the same rate through a non-bypassable bill credit.
7. **Reduce adverse impacts on low income households**: This proposal ensures that no customer will experience an increase in rates, including low-income customers. In addition, the proposal allows for auction proceeds collected in excess of ratepayer cost burden to be allocated to cost-effective GHG reduction programs. These may include programs targeted at low-income customers.

V. ALTERNATE PROPOSALS WOULD BE DIFFICULT TO IMPLEMENT FOR AGRICULTURAL CUSTOMERS

The proposal outlined in this document can be implemented for all customer classes. If, however, the Commission determines to structure the return of GHG credits in a different manner for certain customer classes, the Agricultural Parties encourage the Commission to follow this proposal for agricultural customers and food processors.

To the extent that the Commission is concerned about having a sufficient carbon price signal in rates, the Commission should be aware that owners of small farms and other agricultural customers and food processors not already on time-of-use tariffs are being transitioned to time-of-use tariffs.[34] Once this transition is completed, all growers and food processors will face a very clear carbon price signal to reduce usage in on-peak hours when electricity is most carbon intensive. This is in addition to the price signal already embedded in rates through the rate increments for renewable energy, distributed generation, and energy efficiency programs. Additional carbon price signals are therefore not needed. For customers new to time-of-use tariffs, it would be particularly difficult to adjust to these new signals at the same time as they are adjusting to the time-of-use tariffs. Depending on how these carbon signals were structured, there would also be the possibility of conflicting signals that could undermine the Commission's policy goals.

In addition, any increase in electricity rates would make it harder for growers and processors to compete in the global market for their goods and would further threaten their economic viability in this state. This would not only negatively impact California's economy, but it could also increase global GHG emissions as the lost production shifts out-of-state or abroad where electricity is generally more carbon intensive.

[34] CPUC decisions D.09-08-028, Ordering Paragraph 12, p. 62; D.10-02-032, Ordering Paragraphs 1-3, pp. 179-180; and SDG&E GRC Phase II application, A.11-10-002, October 3, 2011, pages CF-23 through CF-24.

Moreover, the revenue allocation proposal recommended here, in which customers are credited for their GHG costs in the same billing cycle as these costs are incurred, is readily implementable for agricultural customers and food processors. Alternate proposals could be difficult—if not impossible—to implement in an equitable manner.

For example, allocating costs to customers on a per-capita or per-account basis, while potentially reasonable for certain customer classes, is hard to conceive of for growers and food processors given the large disparity in their energy needs. It would be nearly impossible to determine the appropriate level of allowances for each customer because a customer's electricity demand is so dependent on the mix of crops being grown or processed and, for a grower, the ground water level and weather patterns in the farm's particular location. The only appropriate way to allocate revenue to growers and food processors is therefore based on their actual electricity usage.

Similarly, it would be inappropriate to allocate GHG credits based on historic usage. Agricultural electricity demand can vary widely from year to year with weather changes or different choice of crops. Food processing energy demand also varies year-to-year, since the weather and other variable factors greatly influence the physical disposition of fruits and vegetables, which in turn influences the amount of processing required. Allocation based on anything other than current usage would therefore not properly reflect the customer's GHG costs.

Finally, it is important that credits be returned to agricultural users in the same billing cycle as the costs are incurred. Most California farmers are small businesses that already face significant cash flow strain given the nature of the growing season, with many months of labor required before crops can be harvested and sold. Requiring growers to pay higher electricity bills for months on end would exacerbate this burden, even if the higher costs were ultimately returned in refund checks. For the many growers and food processors with seasonal energy demand, this burden would be particularly heavy. Furthermore, due to high trade exposure levels, often times profit margins are minimal when compared to other industries. Having credits returned in the same billing cycle is needed to avoid leakage to domestic and foreign competitors.

VI. CONCLUSION

The Agricultural Parties' proposal effectively addresses the objectives of the Commission and ARB for implementing AB 32 and should be strongly considered for adoption in this proceeding. The proposal would equitably offset rate increases for all customers and would appropriately address the objectives put forth by the Commission.

In the event that an alternative proposal is adopted, the Agricultural Parties request that the Commission specifically consider the impact of the allocation method on agricultural users and food processors. To the extent possible, the Commission should ensure that excess costs borne by agricultural users and food processors are fully offset by a GHG credit provided in the same billing cycle in which the costs are incurred.

Submitted on behalf of the Agricultural Parties; Agricultural Council of California, Agricultural Energy Consumers Association, California Farm Bureau Federation and California League of Food Processors.

Date: October 5, 2011

Respectfully submitted

Karen Norene Mills

KAREN NORENE MILLS

ATTACHMENT A: RESUME AND STATEMENT OF QUALIFICATIONS OF LAURA NORIN

LAURA B. NORIN

PROFESSIONAL EXPERIENCE

Senior Project Manager
MRW & Associates, LLC
(2004-Present)
Conduct quantitative and qualitative analyses related to energy regulation, policy, commerce, and litigation. Research and develop policy reports and participate in regulatory proceedings. Prepare expert witness testimony in utility rate cases and other proceedings before the California Public Utilities Commission. Construct models to forecast retail electricity rates and assess generation alternatives. Major projects include work on nuclear energy policy, retail energy markets, natural gas storage, and resource adequacy.

Graduate Student Researcher
UC-Berkeley
(2002-2004)
Conducted biophysics research related to cellular interaction mechanisms.

Research Associate
Lawrence Berkeley National Lab
(2001-2002)
Used microscopic and spectroscopic techniques to investigate the sources of battery failure in high-power batteries being developed for hybrid vehicles.

Research Assistant
Fieldston Company
(1996)
Conducted research and quantitative analysis related to domestic energy transportation. A major project involved analyzing the finances of domestic freight railroads as part of a study on the effects of railroad consolidation on deregulating utilities.

EDUCATION

M.S., Applied Physics, University of California, Berkeley, 2004
B.S., Physics, University of California, Berkeley, 2001

STATEMENT OF QUALIFICATIONS OF WITNESS

Q Please state your name and business address.

Q My name is Laura Norin. I am a Senior Project Manager with MRW & Associates, LLC ("MRW"). MRW is an energy consulting firm that was founded in 1986. MRW specializes in power and gas market assessments, regulatory matters, litigation support, expert witness testimony, contract review, and negotiations. My business address is 1814 Franklin Street, Suite 720, Oakland, California.

Q Briefly summarize your educational background and professional experience.

A Since 2004 I have been working at MRW where I have been focusing on California's electricity and natural gas markets, regulations, and policies. During this time, I have worked with energy policy makers, financial institutions, energy suppliers, and municipal and industrial end-users on a variety of issues, including electricity ratemaking, departing load exit fees, asset valuation, and wholesale and retail electricity price forecasting. Previously, I worked as a research associated at Lawrence Berkeley National Lab's Environmental Energy Technology Division. I have a Masters Degree in Applied Physics from the University of California, Berkeley.

Q Have you ever testified before this Commission?

A Yes. I previously testified in PG&E's most recent General Rate Case Phase 1 and Phase 2 applications (A.09-12-012 and A.10-03-014), SDG&E's General Rate Case Phase 1 (A.10- 12-005) and SDG&E's application for authority to enter in to power purchase tolling agreements with Escondido Energy Center, Pio Pico Energy Center and Quail Brush Power (A.11-05-023).

Q For whom are you submitting this testimony?

A I am submitting testimony of behalf of the Agricultural Parties. A description of the Agricultural Parties is provided in the introduction of the testimony.

ATTACHMENT B: AIR RESOURCES BOARD. PROPOSED 15-DAY MODIFICATIONS, SEPTEMBER 12, 2011.

September 2011

Subchapter 10 Climate Change, Article 5, Sections 95800 to 96022, Title 17, California Code of Regulations, to read as follows:

Article 5: CALIFORNIA CAP ON GREENHOUSE GAS EMISSIONS AND MARKET-BASED COMPLIANCE MECHANISMS

Note: The pre-existing regulation text is set forth below in normal type. The first 15-day amendments are shown in underline to indicate additions and strikeout to indicate deletions. The second 15-day amendments are shown in double underline and double strikeout.

Subarticle 1: Table of Contents

§ 95800. Table of Contents.

SUBARTICLE 1: TABLE OF CONTENTS 1

§ 95800. TABLE OF CONTENTS. 1

SUBARTICLE 2: PURPOSE AND DEFINITIONS 5

§ 95801. PURPOSE. 5
§ 95802. DEFINITIONS. 5

SUBARTICLE 3: APPLICABILITY 52

§ 95810. COVERED GASES. 52
§ 95811. COVERED ENTITIES. 52
§ 95812. INCLUSION THRESHOLDS FOR COVERED ENTITIES. 54
§ 95813. OPT-IN COVERED ENTITIES. 57
§ 95814. VOLUNTARILY ASSOCIATED ENTITIES AND OTHER REGISTERED PARTICIPANTS. 58

SUBARTICLE 4: COMPLIANCE INSTRUMENTS 60

§ 95820. COMPLIANCE INSTRUMENTS ISSUED BY THE AIR RESOURCES BOARD. 60
§ 95821. COMPLIANCE INSTRUMENTS ISSUED BY APPROVED PROGRAMS. 60

SUBARTICLE 5: REGISTRATION AND ACCOUNTS 61

§ 95830. REGISTRATION WITH ARB. 61
§ 95831. ACCOUNT TYPES. 64
§ 95832. DESIGNATION OF AUTHORIZED ACCOUNT REPRESENTATIVE. 69
§ 95833. DISCLOSURE OF DIRECT AND INDIRECT CORPORATE ASSOCIATIONS. 75
§ 95834. DISCLOSURE OF BENEFICIAL HOLDING RELATIONSHIPS. 78

SUBARTICLE 6: CALIFORNIA GREENHOUSE GAS ALLOWANCE BUDGETS 81

§ 95840. COMPLIANCE PERIODS. 81
§ 95841. ANNUAL ALLOWANCE BUDGETS FOR CALENDAR YEARS 201~~2~~3-2020. 82
TABLE 6-1: CALIFORNIA GHG ALLOWANCES BUDGETS 82
§ 95841.1 VOLUNTARY RENEWABLE ELECTRICITY. 82

determined pursuant to this section. The provisions of sections 95857 and 96014 shall not apply during these six months. The entity may use compliance instruments from subsequent compliance periods to meet these requirements. The entity may only use CA GHG allowances or allowances issued by a GHG ETS approved pursuant to subarticle 12 to meet the requirements of this section.

(d) Any determination that an entity under-reported its emissions for a previous compliance period shall be made by the Executive Officer no later than eight years from the applicable verification deadline for the emissions data report which contained the under-reporting of emissions.

NOTE: Authority cited: Sections 38510, 38560, 38562, 38570, 38571, 38580, 39600 and 39601, Health and Safety Code.
Reference: Sections 38530, 38560.5, 38564, 38565, 38570 and 39600, Health and Safety Code.

Subarticle 8: Disposition of Allowances

§ 95870. Disposition of Allowances.

(a) Allowance Price Containment Reserve. Upon creation of the Allowance Price Containment Reserve Account ~~On December 15, 2011July 18, 2012~~, the Executive Officer shall transfer allowances to the Allowance Price Containment Reserve, as follows:

(1) One percent of the allowances from budget years 201~~2~~3-2014;

(2) Four percent of the allowances from budget years 2015-2017; and

(3) Seven percent of the allowances from budget years 2018-2020.

(b) Advance Auction. Upon creation of the Auction Holding Account~~On December 15, 2011July 18, 2012~~, the Executive Officer shall transfer ~~two~~ 10 percent of the allowances from budget years 2015-2020 to the Auction Holding Account.

(1) These allowances shall be auctioned pursuant to section 95910.

(2) The proceeds from the sale of these allowances will be deposited into the Air Pollution Control Fund and will be available upon appropriation

by the Legislature for the purposes designated in California Health and Safety Code sections 38500 et seq.

(c) Upon creation of the Voluntary Renewable Electricity Reserve Account~~On December 15, 2012~~, the Executive Officer shall transfer allowances to the Voluntary Renewable Electricity Reserve Account, as follows:

(1) 0.5 percent of the allowances from budget years 2013-2014; and

(2) 0.25 percent of the allowances from budget years 2015-2020

~~(c)~~(d) ~~Allocation to Public Utilities.(1) Electrical Distribution Utilities. The Executive Officer will place an annual individual allocation in the holding account of each eligible electrical distribution utility on or before January 15 of each calendar year from 20123-2020 pursuant to section 95892.~~

Electrical Distribution Utility Sector Allocation. Allowances available for allocation to electrical distribution utilities each budget year shall be ~~89~~97.7 million metric tons multiplied by the cap adjustment factor in Table 9~~-~~-2 for each budget year 201~~2~~3-2020. The Executive Officer will allocate to electrical distribution utilities on July 15, 2012, or the first business day thereafter, for vintage 2013 allowances and November 1, or first business day thereafter, of each calendar year from 2013-2019 for allocations from 2014-2020 annual allowance budgets.

~~(2) Reserved for Natural Gas Distribution Utilities.~~

~~(d)~~(e) Allocation to Industrial Covered Entities. Allowances allocated for the purposes of industry assistance shall be transferred to holding accounts for industrial sectors listed in Table 8-1.

(1) The Executive Officer will place an annual individual allocation in the holding account of each eligible covered entity on or before November 1, or the first business day thereafter, ~~January 15~~ of each calendar year 2012-2019~~-20123-2020~~ for allocations from 2013-2020 annual allowance budgets.

(2) Allocation to eligible covered entities shall be conducted using the assistance factors specified for each listed industrial activity~~sector~~ found in Table 8-1 and the methodology set forth in section 95891.

Leakage Risk Classification	NAICS Sector Definition	NAICS Code	Activity(a)	Industry Assistance Factor (AF_a)		
	Flat Glass Manufacturing	327211	Flat Glass Manufacturing	100%	100%	100%
	Glass Container Manufacturing	327213	Container Glass Manufacturing	100%	100%	100%
	Cement Manufacturing	327310	Cement Manufacturing	100%	100%	100%
	Lime Manufacturing	327410	Dolime Manufacturing	100%	100%	100%
	Iron and Steel Mills	331111	Steel Production Using Electric Arc Furnace	100%	100%	100%
	Rolled Steel Shape Manufacturing	331221	Hot Rolled Steel Sheet Production	100%	100%	100%
Medium	Food Manufacturing	311	Food Manufacturing	100%	75%	50%
	Cut and Sew Apparel Manufacturing	3152	Cut and Sew Apparel Manufacturing	100%	75%	50%
	Breweries	312120	Brewing	100%	75%	50%
	Petroleum Refineries	324110	Petroleum Refining	100%	75%	50%
	~~All Other Petroleum and Coal Products Manufacturing~~	~~324199~~	~~Coke Calcining~~	~~100%~~	~~75%~~	~~50%~~
	Industrial Gas Manufacturing	325120	Gaseous Hydrogen Production	100%	75%	50%
			Liquefied Hydrogen Production	100%	75%	50%
	Biological Product (Except Diagnostic) Manufacturing	325414	Biological Product (Except Diagnostic) Manufacturing	100%	75%	50%
	Gypsum Product Manufacturing	327420	Plaster Manufacturing	100%	75%	50%
			Plaster Board Manufacturing	100%	75%	50%
	Mineral Wool Manufacturing	327993	Fiber Glass Manufacturing	100%	75%	50%
	Rolled Steel Shape Manufacturing	331221	Picked Steel Sheet Production	100%	75%	50%
			Cold Rolled and Annealed Steel Sheet Production	100%	75%	50%
			Galvanized Steel Sheet Production	100%	75%	50%

Then: $A_{Y,Credit} = (AE_{Y,2013} * DF_{Y,2013} * F_{2013} * AF_{2013} + AE_{Y,2014} * DF_{Y,2014} * F_{2014} * AF_{2014}) - (A_{Y,2013} + A_{Y,2014})$

Where:

"$A_{Y,Credit}$" = An additional true-up allocation distributed by the Executive Officer to refinery "Y" using 2015 vintage allowances.

Table 9-2: Cap Adjustment Factors for Allowance Allocation ~~Assistance to Industry~~

~~Cap Adjustment Factors for Assistance to Industry~~				
Budget Year	**Cap Adjustment Factor (c) for All Other ~~Industries~~ Direct Allocation**	**Cap Adjustment Factor (c) for Sectors with Process Emissions Greater Than 50%**		
		Sector	**NAICS**	**Activity**
		Nitrogenous Fertilizer Manufacturing	325311	Nitric Acid Production
				Calcium Ammonium Nitrate Solution Production
		Cement manufacturing	327311	Cement manufacturing
		Lime manufacturing	327410	Dolime Manufacturing
		~~Cement Manufacturing (NAICS 327310)~~		
~~2012~~	~~1.000~~	~~1.000~~		
2013	0.981	0.991		
2014	0.963	0.981		
2015	0.944	0.972		
2016	0.925	0.963		
2017	0.907	0.953		
2018	0.888	0.944		
2019	0.869	0.935		
2020	0.851	0.925		

NOTE: Authority cited: Sections 38510, 38560, 38562, 38570, 38571, 38580, 39600 and 39601, Health and Safety Code.
Reference: Sections 38530, 38560.5, 38564, 38565, 38570 and 39600, Health and Safety Code.

§ 95892. Allocation to Electrical Distribution Utilities for Protection of Electricity Ratepayers.

(a) ~~Reserved for allocation to electrical distribution utilities.~~ Allocation to Individual Electrical Distribution Utilities. The allowances allocated to each electrical distribution utility from each budget year shall be the electrical distribution utility sector allocation calculated pursuant to section 95870(d) for the budget year multiplied by the percentage allocation factors specified in Table 9-3. Any allowance allocated to electrical distribution utilities must be used exclusively for the benefit of retail ratepayers of each such electrical distribution utility, consistent with the goals of AB 32, and may not be used for the benefit of entities or persons other than such ratepayers.

(b) Transfer to Utility Accounts.

(1) Investor O~~o~~wned U~~u~~tilities. The Executive Officer will place allowances in the limited use holding account created for each electrical corporation.

(2) Publicly ~~o~~Owned Electric Utilities or Electrical Coo~~r~~peratives. When allocating to a publicly owned electric utility or an electrical cooperative, the Executive Officer will place allowances in either a limited use holding account or in a compliance account per the entity's preference. ~~At least 90 days p~~Prior to receiving a direct allocation of allowances, publicly owned electric utilities or ~~E~~electrical ~~C~~cooperatives will inform the Executive Officer of the share of their allowances that is to be placed:

(A) In the compliance account of an electrical generating facility operated by a publicly owned electric utility,~~'s or E~~ an electrical ~~C~~cooperative~~'s~~ ~~compliance account,~~ or ~~the compliance account of~~ a Joint Powers Agency in which the electrical distribution

utility or electrical cooperative is a member and with which it has a power purchase agreement; or

(B) In the publicly owned electric utility's or ~~E~~electrical ~~C~~cooperative's limited use holding account.

(c) Monetization Requirement. ~~Each calendar year, an electrical distribution utility must offer for sale at auction all allowances in a limited use holding account that were issued:~~

~~(1) from budget years that correspond to the current calendar year; and~~

~~(2) from budget years prior to the current calendar year.~~

(1) In 2012 an electrical distribution ~~investor owned~~ utility must offer one-sixth of the allowances placed in its limited use holding account in 2012 for sale at each of the two auctions scheduled for 2012.

(2) Within each calendar year after 2012, an electrical distribution utility must offer for sale at auction all allowances in a limited use holding account that were issued:

(A) From budget years that correspond to the current calendar year; and

(B) From budget years prior to the current calendar year.

(d) Limitations on the Use of Auction Proceeds and ~~Auction~~ Allowance Value.

(1) Proceeds obtained from the monetization of allowances directly allocated to a publicly owned electric utility shall be subject to any limitations imposed by the governing body of the utility and to the additional ~~limitations~~ requirements set forth in sections 95892(d)(3-5) and 95892(e) ~~below~~.

(2) Proceeds obtained from the monetization of allowances directly allocated to investor owned utilities shall be subject to any limitations imposed by the California Public Utilities Commission and to the additional ~~limitations~~ requirements set forth in sections 95892(d)(3-5) and 95892(e) ~~below~~.

(3) Auction proceeds and allowance value obtained by an electrical distribution utility shall be used exclusively for the benefit of retail

ratepayers of each electrical distribution utility, consistent with the goals of AB 32, and may not be used for the benefit of entities or persons other than such ratepayers.

(4) Investor owned utilities shall ensure equal treatment of their own customers and customers of electricity service providers and community choice aggregators.

~~(A) Investor owned utilities shall ensure equal treatment of their own customers and customers of electricity service providers and community choice aggregators.~~

~~(B) To the extent that an electrical distribution utility uses auction proceeds to provide ratepayer rebates, it shall provide such rebates with regard to the fixed portion of ratepayers' bills or as a separate fixed credit or rebate.~~

~~(C) To the extent that an electrical distribution utility uses auction proceeds to provide ratepayer rebates, these rebates shall not be based solely on the quantity of electricity delivered to ratepayers from any period after January 1, 2012.~~

(5) Prohibited Use of Allocated Allowance Value. Use of the value of any allowance allocated to an electrical distribution utility, other than for the benefit of retail ratepayers consistent with the goals of AB 32 is prohibited, including use of such allowances to meet compliance obligations for electricity sold into the California Independent System Operator markets.

(e) Reporting on the Use of Auction Proceeds and Allowance Value. No later than June 30, 2013, and each calendar year thereafter, each electrical distribution utility shall submit a report to the Executive Officer describing the disposition of any auction proceeds and allowance value received in the prior calendar year. This report shall include:

(1) The monetary value of auction proceeds received by the electrical distribution utility;~~.~~

Table 9-3: Percentage of Electric Sector Allocation Allocated to Each Utility

Utility Name	Utility Type (1)	Annual % of Total Electric Sector Allocation to Utility							
		2013	2014	2015	2016	2017	2018	2019	2020
PG&E	IOU	26.02909%	26.34522%	26.01510%	26.21500%	27.21147%	26.91164%	27.21091%	27.22981%
LADWP	POU	14.18332%	14.18925%	14.00829%	14.43473%	14.91438%	15.28169%	14.96326%	14.04837%
SCE	IOU	34.01733%	33.58115%	34.04480%	32.69831%	30.32124%	29.84140%	29.46661%	29.71342%
SDG&E	IOU	7.21940%	6.96087%	6.96792%	7.08933%	7.29010%	7.24815%	7.28721%	7.38964%
SMUD	POU	3.28172%	3.28283%	3.21338%	3.30147%	3.44817%	3.57259%	3.70519%	3.83415%
City of Anaheim	POU	2.07532%	2.12074%	2.11355%	2.19270%	2.20963%	2.27089%	2.30639%	2.35434%
City of Azusa (Azusa Light & Water)	POU	0.18055%	0.18489%	0.18858%	0.19402%	0.20119%	0.20555%	0.21082%	0.21761%
City of Banning	POU	0.09772%	0.10169%	0.10327%	0.10646%	0.11074%	0.11334%	0.11631%	0.12050%
City of Burbank	POU	0.65354%	0.66027%	0.66532%	0.67128%	0.68296%	0.68319%	0.68787%	0.69354%
City of Cerritos	POU	0.01827%	0.01887%	0.01945%	0.02004%	0.02090%	0.02128%	0.02186%	0.02240%
City of Colton	POU	0.24485%	0.25185%	0.25876%	0.26535%	0.27437%	0.27891%	0.28559%	0.29302%
City of Glendale (Glendale Water and Power)	POU	0.65850%	0.66238%	0.66100%	0.67150%	0.69049%	0.69592%	0.68391%	0.70039%

Attachment C: Letter from the Agricultural Council of California to Mary Nichols, ARB, re: CA Air Resources Board Proposed Regulation Order for a CA Cap-and-Trade Program on Greenhouse Gas Emissions & Market-Based Compliance Mechanisms, December 14, 2010.

Agricultural Council of California
REPRESENTING FARMER COOPERATIVES SINCE 1919

December 14, 2010

Honorable Mary Nichols, Chair
California Air Resources Board
1001 I Street
Sacramento, CA 95812

RE: CA Air Resources Board Proposed Regulation Order for a CA Cap-and-Trade Program on Greenhouse Gas Emissions & Market-Based Compliance Mechanisms

Dear Ms. Nichols,

Agricultural Council of California (Ag Council) represents agricultural cooperatives and farmer-owned businesses. Collectively, we represent over 10,000 farmer-owners and over $8 billion in sales. Ag Council members participate in domestic and international markets, sending products throughout the United States and to over 100 countries.

Environmental sustainability is not new to our membership. Many agricultural and food processors respond to market forces that require them to achieve certain environmental thresholds and as such, they routinely set internal standards for environmental improvements. Many of our members have the most efficient boilers and equipment available to meet these thresholds.

However, it should be noted that many of the requirements in the implementation of AB 32 are problematic and many of the assumptions made do not apply to our industry. Food processing is mostly a seasonal industry, with operations lasting less than four months out of the year, with the exception of dairy. Furthermore, our industry is sensitive to import pressures from domestic competitors in other states as well as foreign competitors such as China, Greece, Italy, South America and Mexico. Crop characteristics such as the amount of solids or sugars also play a role in the efficiency and operation of our boilers and equipment, often creating variable fruit and vegetable quality that may require more or less time cooking, depending on solids, size and other variables.

Throughout our meetings with staff and elected officials regarding AB 32 implementation, several questions have been raised as to the ability of food processors to move into another market. It should be noted that facilities used to produce food are dedicated to the specific commodity. Movement from food production to another type of market, or even another type of

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commodity is highly unlikely due to the dedicated nature of the facilities. Equipment, facilities lay-out and labor are highly-specialized and cannot easily be transformed to other types of production. Should the cost of producing food become too high, a processor cannot enter another type of manufacturing without millions in costs to overhaul the entire plant. Additionally, a food processor cannot interchange between types of food produced because the equipment is so specialized. For example, a tomato processor cannot go into almond processing in the near future, without major investments.

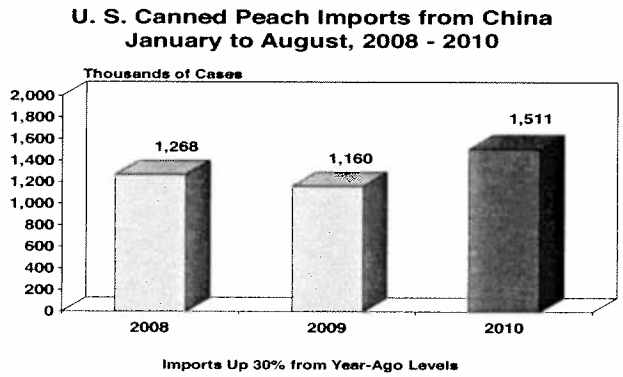
ISSUES OF CONCERN WITH CURRENT DRAFT OF REGULATIONS:

Emissions leakage for the food processing industry is our central concern in this regulation. Agricultural products are very sensitive to low-cost competitors in domestic and international markets. Many of these markets can flood segments of our industry in a matter of months, such as the current situation in the canned peach industry.

The November 12, 2010 edition of "Peach Fuzz," a newsletter by the CA Canning Peach Association, demonstrates the problems associated with low-cost competitors such as China:

"CANNED PEACH IMPORTS UP 45%, EXPORTS DOWN 2%

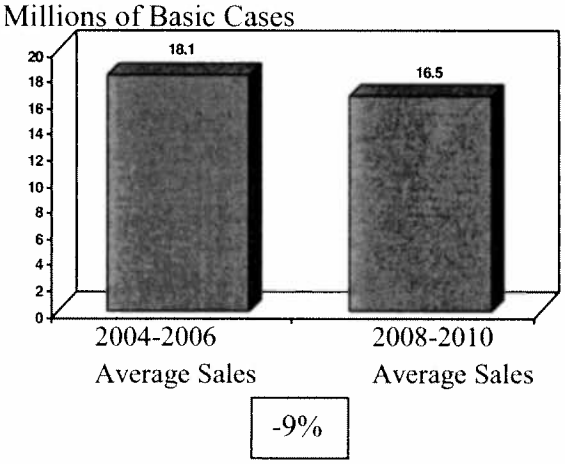
Canned peach imports for June-August totaled 887,886 cases, up 45% from the 614,329 cases imported for the first three months of the 2009-10 marketing year. China continues to be the leading importer with 589,760 cases shipped. In fact, Chinese imports for the calendar year (thru August) have reached 1,510,768 cases which represents a 30% increase over last year's volume. Canned peach exports for June-August totaled 175,138 cases, down 2% from the 179,059 cases exported during this period last year. Mexico is the leading export destination with 70,606 cases shipped."



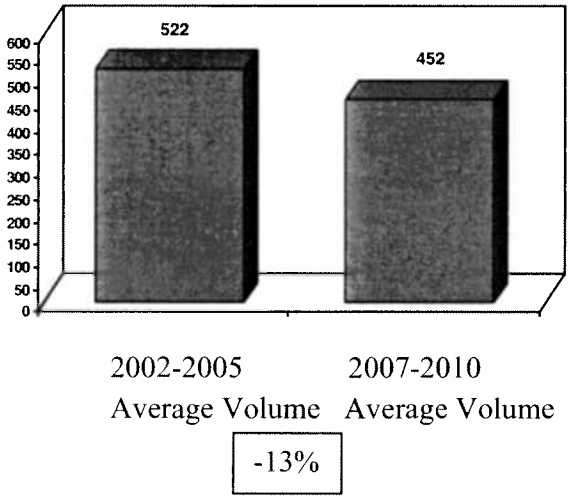
Courtesy of CA Canning Peach Association

The California Canning Peach Association further demonstrates the U.S.'s loss of market share in the following graphs.

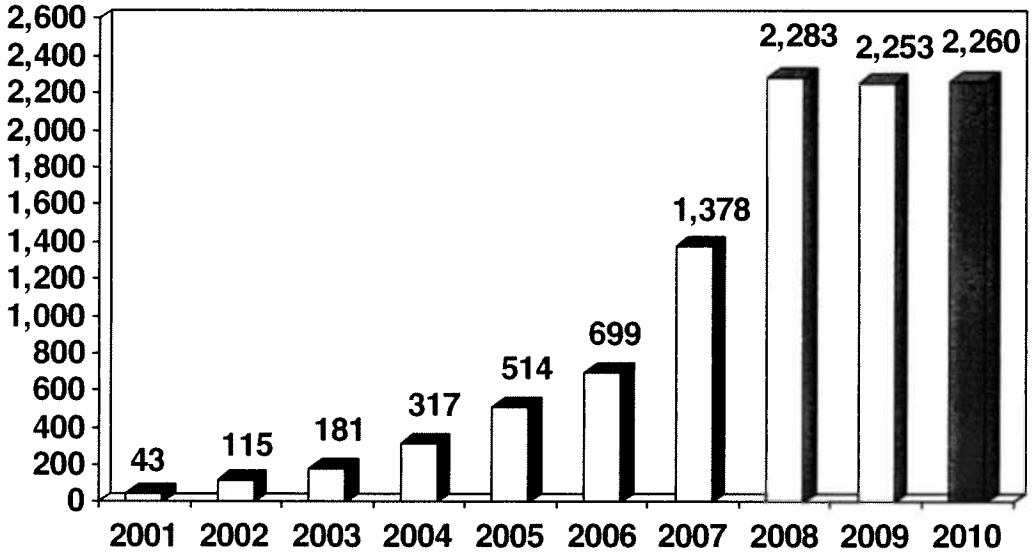
Canned Peach Sales Trends
3 Year Average Volume: 2004-2006 vs. 2008-2010
Millions of Basic Cases



Comparison of Peach Delivery Volumes
4 Year Average Volume: 2002-2005 vs. 2007-2010
Thousands of Tons



U. S. Canned Peach Imports from China
2001 – 2010
Thousands of Cases



Imports from China have tripled since 2006.

China and Mexico are gaining significant market share in the processing tomato industry as well. According to the USDA's Foreign Ag Service, *World Horticultural Trade & U.S. Export Opportunities*, August 2005 report:

> "China is the world's largest tomato paste and puree exporter, with 2004 exports of 438,192 tons… In the last few years, China has bought major tomato processors in the EU. As a result, European exports of tomato paste and puree have declined. From 2002-2004, EU25 exports of paste and puree have decreased 23 percent, while China's rose 34 percent…"

According to the USDA's Foreign Ag Service, *World Markets & Trade: Fresh & Processing Tomato*, July 2008 report:

> "Mexico is the leading tomato exporter, accounting for almost half of world exports. Exports for marketing year (MY) 2007/08 (October-September), are forecast to increase slightly to 1.1 million tons due to higher production and favorable prices… China continues to expand tomato production, processing capacity, and exports… Processing tomato production is expected to reach a record 5.2 million tons and is anticipated to continue rising over the next few years due to expanding acreage in Inner Mongolia. Over 80 percent of China's processing tomato production is expected to be used for paste.
>
> Due mainly to higher production forecasts, exports are projected to reach another record. From July 2007 through May 2008 (latest data available), exports reached 103,000 tons, up 35 percent from the previous year."

In both cases, the U.S. is the leading market of imports, with foreign competition gaining significant ground in the latter report. Both reports can be found at:

USDA; Foreign Ag Service; *World Horticultural Trade & U.S. Export Opportunities*. August 2005. http://www.fas.usda.gov/htp/Hort_Circular/2005/08-05/08-01-05%20Tomato%20article.pdf

USDA; Foreign Ag Service; *World Markets & Trade: Fresh & Processing Tomatoes*. July 2008. http://www.fas.usda.gov/htp/2009%20Tomato%20Article.pdf

Alternatively, the dairy sector is highly dependent on an export market that could fluctuate as a function of production costs. According to the U.S. Dairy Export Council's "September Export Data – top line analysis," dated November 10, 2010:

> " 2010 U.S. dairy exports continued at a record pace through September. Aggregate volume of dry ingredients (milk powders, whey proteins and lactose), cheese and butterfat was 131,395 tons in September, up 57 percent from a year ago, according to trade data released November 10 by USDA's Foreign Agricultural Service. Total export value in September was $345.5 million, up 87 percent. The increase pushed year-to-date export value to $2.718 billion, a rise of 69 percent over the first nine months of 2009.
>
> September gains capped an active third quarter for U.S. suppliers."

Leakage Risk:

According to CA Department of Food & Agriculture, of the top ten commodities, over half are exposed to international trade issues. Many export to international markets, while others face pressures from importing markets.

Industry Assistance Factor:

In Appendix J, the regulation states that the Industry Assistance Factor is essentially the ability an industry has to pass-on carbon costs. With low-cost competitors throughout the world, even a minimal increase in cost could displace certain market segments as demonstrated in the previously listed reports.

Recommendations:

- The formula for trade exposure and emissions leakage should be reevaluated to give special consideration to agricultural import and export markets. Food processing should be moved to the "high" leakage risk category, due to increasing international and domestic markets as stated in the previous data points.

- Food manufacturing is located in the second Industry Assistance Factor tier (Industry Assistance Factor of 100%; 75%; 50%), and should be moved to the top industry assistance factor tier due to price pressures from international markets. Even a minimal increase in costs could displace U.S. markets, giving more ground to domestic and international competitors.

Emissions Intensity:

Within the regulation, staff realizes the importance of domestic competition and the ability of emissions leakage to other states, granting easier access to California markets. Staff also observed that emissions intensity may not play a direct role in emissions leakage.

However, the report also states that emissions intensity is to serve as a "proxy" for compliance costs. This assessment is not accurate for the food industry. The California Air Resources Board (CARB) staff assumes a "low" emissions intensity for the food industry, while compliance costs are quite higher for food processing when domestic and international markets are lost to lower-priced competition and food processors are left competing with companies in an auction market that has no price caps for allowances. This is coupled with the fact that the vast majority of food processing is a seasonal industry in which emissions are generated.

Recommendations:

- Ag Council agrees with staff assessments regarding domestic competition as being problematic as it relates to the food and agricultural industry. A different approach should be taken for food processing in determining compliance costs and/or emissions intensity. The emissions intensity variable in the product-based allocation calculation should be replaced with another variable that truly represents the cost of compliance for the food industry. Staff should take more time to work with the food processing industry to determine an appropriate factor for this variable.

Product-Based Benchmarking:

With approximately 400 agricultural commodities and even more byproducts on store shelves, it will be quite problematic for CARB staff to attempt to create product-based benchmarks for food processing. Management of a product-based system is beyond the scope of CARB's expertise.

Recommendation:

- Energy-based benchmarks are more acceptable to the food processing industry and would create a more streamlined system for CARB regulators. However, some flexibility should be allowed within the system to achieve collective goals of CARB and food producers who wish to grow the industry.
- A well known industry set of standards and efficiency promulgated by a respected group, the American Society of Mechanical Engineers, should be used in place of CARB's proposed efficiency rule. These standards are familiar to processors, and were created over many years of study by a third party trade association.

Free Allowances & Public Utilities:

Ag Council appreciates CARB's first three years of free allowances to avoid extreme market fluctuations. CARB also plans to provide free allowances to the utilities so that they can offset costs that are likely going to be experienced by rate payers. Should these allowances be auctioned, Ag Council requests that some of that relief be provided to food and agriculture. These funds could help offset costs incurred by rate increases and investments at the plant, but potentially be invested in research and development in existing and future technologies.

Recommendation:

- CARB should include report language specifying that agricultural and food processing sectors should be considered as rate-payers and some of those funds should be directed back toward the industry accordingly.

Other miscellaneous issues:

- Inclusion of a robust offsets program is essential to cost-containment of AB 32. The 8 percent limitation is too restrictive and will prevent interest and investment in innovative emissions reductions projects in uncapped sectors. Agricultural cooperatives, in particular, have a unique opportunity to participate in carbon sequestration activities of their grower-owners and utilizing those offsets as part of the compliance rules in cap & trade. Limiting the total allowance market to only 8 percent for offset projects discourages potential participation in the program from production agriculture and could prevent this unique opportunity for agricultural cooperatives. Ag Council urges the Board to review this cap in the future as potential new offset protocols come on line. Without a promise to review the 8 percent cap, this may provide a strong disincentive for capital to be invested by state or private organizations to development of new offsets.
- Mandatory reporting at 10,000 MTCO2E should be delayed until additional workshops can be conducted and staff has time to work with the affected stakeholders. There has been very little outreach from CARB to the agricultural community to help us determine who may be affected by this rule. Ag Council believes this substantial change is premature and unnecessary at this time.
- Once this rule is adopted, California will be serving as a case study in climate change for the rest of the country. As experienced in many sectors of the food and agriculture industry, certain market segments could be flooded with imports in a matter of months such as the previously-stated case in the processed peach industry. CARB staff should be required to report to the Board on the findings of impacts on food processing as the regulation is underway so as to avoid these types of situations.

SPECIAL CONSIDERATIONS:

Many of the assumptions made throughout the document do not apply to agriculture or food processing. Therefore an industry-wide study should be conducted to fully understand the

impacts to the food processing sector. We are hopeful that our analysis of the following assumptions will assist CARB staff when trying to determine appropriate participation for the agriculture and food processing sectors. While there are several assumptions that are problematic for our industry, two highlights include:

Economic & Allocation Advisory Committee (EAAC) Recommendations:

- In Appendix L, the EAAC assumes companies will fluctuate to variable power sources, depending on the price available for those sources. The opportunity for fuel substitution is minimal in the short and long term because many of our food processors are already utilizing the cleanest forms of fuel and technology. Absent this transition, the analysis goes on to state that reducing output due to price increases is the second option to reduce greenhouse gas emissions. On page L-27, the report states "higher prices will elicit a reduction in the quantity demanded for these products, leading to a reduction in greenhouse gas emissions." When applying this theory to the food industry, it underscores our concerns about emissions leakage and the need to protect our local food industry.

Pay-back Periods:

- Assumptions on pay-back periods are faulty because CARB assumes pay-back periods on an annual basis. On page F-7, the regulation states that pay-back periods on capital costs are under three years. Many food processors operate only a few months out of the year, so this pay-back period on technology adaptation would have to be tripled or quadrupled to create a more accurate projection for our industry.

Ag Council appreciates the opportunity to work with CARB on this regulation. We look forward to continuing our working relationship regarding climate change and are hopeful for a workable outcome for our industry. Should you have any questions or concerns, please do not hesitate to contact me at (916) 443-4887.

Sincerely,

Emily Rooney
President

Citations:
USDA; Foreign Ag Service; *World Horticultural Trade & U.S. Export Opportunities*. August 2005. http://www.fas.usda.gov/htp/Hort_Circular/2005/08-05/08-01-05%20Tomato%20article.pdf

USDA; Foreign Ag Service; *World Markets & Trade: Fresh & Processing Tomatoes*. July 2008. http://www.fas.usda.gov/htp/2009%20Tomato%20Article.pdf

U.S. Dairy Export Council's "September Export Data – top line analysis." November 10, 2010. http://usdec.files.cms-plus.com/TradeData/PDFs/Summary%20of%20U.S.%20Exports%20Year-To-Date%20.pdf

Other Examples of International Pressures on Agricultural Commodities:
LA Times; *Market watch: Hard Times for CA Asparagus.* March 2010. http://articles.latimes.com/2010/mar/12/food/la-fo-marketwatch-20100312

NY Times; *U.S. Apple Growers Feel Heat from China.* June 2007. http://www.nytimes.com/2007/06/25/business/worldbusiness/25iht-apples.1.6312540.html

LA Times; *Influx of Chinese Garlic Wrinkles Noses in U.S.* February 2005. http://www.wright.edu/~tdung/Chinese_garlic.pdf

ATTACHMENT D: AIR RESOURCES BOARD. RESOLUTION 10-42. DECEMBER 16, 2010.

State of California
AIR RESOURCES BOARD

California Cap-and-Trade Program

Resolution 10-42

December 16, 2010

Agenda Item No.: 10-11-1

WHEREAS, sections 39600 and 39601 of the Health and Safety Code authorize the Air Resources Board (ARB or Board) to adopt standards, rules, and regulations and to do such acts as may be necessary for the proper execution of the powers and duties granted to and imposed upon the Board by law;

WHEREAS, the California Global Warming Solutions Act of 2006 (AB 32; Chapter 488, Statutes of 2006; Health & Safety Code §38500 et seq.) declares that global warming poses a serious threat to the economic well-being, public health, natural resources, and environment of California and creates a comprehensive multi-year program to reduce California's greenhouse gas (GHG) emissions to 1990 levels by 2020;

WHEREAS, AB 32 added section 38501 to the Health and Safety Code, which expresses the Legislature's intent that ARB coordinate with State agencies and consult with the environmental justice community, industry sectors, business groups, academic institutions, environmental organizations, and other stakeholders in implementing AB 32; and design emissions reduction measures to meet the statewide emissions limits for greenhouse gases in a manner that minimizes costs and maximizes benefits for California's economy, maximizes additional environmental and economic co-benefits for California, and complements the State's efforts to improve air quality;

WHEREAS, section 38501(c) of the Health and Safety Code declares that California has long been a national and international leader on energy conservation and environmental stewardship efforts, and the program established pursuant to AB 32 will continue this tradition of environmental leadership by placing California at the forefront of national and international efforts to reduce GHG emissions;

WHEREAS, section 38501(d) of the Health and Safety Code confirms that national and international actions are necessary to fully address the issue of global warming, but action taken by California to reduce GHG emissions will have far reaching effects by encouraging other states, the federal government, and other countries to act;

WHEREAS, section 38510 of the Health and Safety Code designates ARB as the State agency charged with monitoring and regulating sources of GHG emissions in order to reduce these emissions;

February 2011, for the purpose of bringing additional protocols to the Board for consideration as soon as is practical.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to work with U.S. EPA on the development of a federal regulatory framework to grant delegation or equivalency to California's climate program where appropriate.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to work with the California Public Utilities Commission (CPUC) and the publicly owned utilities (POU) to ensure that the proposed allowance value directed to the electric distribution utilities is used for the benefit of residential, commercial, and industrial ratepayers that might otherwise face indirect costs from implementation of this regulation, with particular consideration of the potential for impacts from this program on low-income customers, and for the purposes of AB 32, which could include investment in energy efficiency programs beyond those already required by California law and in renewable energy projects that achieve environmental and public health co-benefits for Californians.

BE IT FURTHER RESOLVED that the Board strongly advises the CPUC and the POU governing boards to work with local governments and non-governmental organizations to direct a portion of allowance value, if the cap-and-trade regulation is approved, into investments in local communities, especially the most disadvantaged communities, and to provide an opportunity for small businesses, schools, affordable housing associations, and other community institutions to participate in and benefit from statewide efforts to reduce greenhouse gas emissions.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to work with the CPUC, the California Energy Commission, the California Independent System Operator, and other interested parties to monitor the proposed greenhouse gas cap-and-trade market, including the effect of the cap-and-trade program on the State's energy markets, and monitoring to the extent feasible the ability of affected entities to pass on costs.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to contract with an independent entity with appropriate expertise that will monitor and provide public reports on the operation of the market, including auctions and reserve sales, on a quarterly basis and recommend appropriate action, which could include taking corrective action prior to the next auction, adding future allowances to the allowance reserve or future auctions, or temporarily suspending trading in the market.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to establish a Board-member facilitated dialogue with the California Air Pollution Control Officers Association regarding involvement of the air pollution control and air quality management districts (air districts) in the implementation of the cap-and-trade regulation, development of compliance offset protocols, and other AB 32 programs.

ATTACHMENT E: AIR RESOURCES BOARD. STAFF PROPOSAL FOR ALLOCATING ALLOWANCES TO THE ELECTRIC SECTOR, JULY 27, 2011.

Appendix A:
Staff Proposal for Allocating Allowances to the Electric Sector

This document describes the process ARB staff used to gather utility data and the assumptions made in projecting utility resource profiles, explains the proposed method for allocating allowances to the electricity sector, and clarifies which entities are eligible to receive allocations reserved for the electricity sector.

BUILDING ON THE PREVIOUS RECOMMENDATION

Staff's Initial Proposal for 15-day Changes to Address Electricity Sector Allowance Allocation (Appendix 1)[1] was released in December as an appendix to Board Resolution 10-42. Appendix 1 included a number of recommendations to finalize the allowance allocation method for the electricity sector. Below we revisit the recommendations and describe Staff's recent work on Data, Sector Allocation, Allocation to Individual Utilities, Updating, and the Public Process.

Data
ARB staff recommends working with stakeholders to verify the data needed to evaluate and execute the allowance allocation methods. ARB staff recommends that the dataset developed by the JUG be the starting point for the data work, but that ARB staff independently validate the data and their sources.

Since December staff has recreated the Joint Utility Group (JUG) dataset from publicly available and survey data. Using this data staff has independently validated the accuracy of individual utility data.

Sector Allocation
The ISOR recommends that a set number of allowances are set aside each year for the electricity sector, starting with the 2012 allocation at 90% of 2008 electricity sector emissions and declining linearly to 85% of that value by 2020. Using the mandatory reporting data, the 2008 emissions from electric generating facilities and imports were 98.9 million metric tons (MMT), so that 90% would be 89 MMT. Additionally, a portion of the electricity produced at facilities that identified themselves as cogeneration facilities was purchased by electricity distribution utilities. Using publicly filed data for 2008 and a heat rate based on the pending PUC QF settlement, the estimated equivalent emissions from QF purchases is 9.67 MMT, so that 90% of this value is 8.7 MMT. The recommended 2012 allowance allocation to the electric sector is therefore 97.7 MMT (89 MMT plus 8.7 MMT). The recommended sector allocation declines linearly to 83 MMT in 2020.

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[1] Appendix 1 may be accessed at:
http://www.arb.ca.gov/regact/2010/capandtrade10/res1042app1.pdf.

Utility Name	Utility Type (1)	Annual Total Electric Sector Allocation by Utility							
		2013	2014	2015	2016	2017	2018	2019	2020
PG&E	IOU	24899.60721	24737.17971	23942.81196	23635.73471	24056.77068	23285.75619	22985.52007	22511.03739
LADWP	POU	13577.35967	13332.78543	12902.26448	13025.87707	13196.73850	13236.54886	12663.60672	11635.75489
SCE	IOU	32550.86930	31539.94692	31343.30862	29489.10961	26806.65905	25821.15324	24888.63348	24562.76588
SDG&E	IOU	6913.19042	6542.72427	6419.94193	6399.65848	6452.76692	6280.29950	6171.85166	6127.32568
SMUD	POU	3136.87952	3079.82955	2954.67507	2973.79152	3045.56140	3088.47708	3125.02326	3165.01542
City of Anaheim	POU	1988.01660	1994.20096	1948.20823	1980.37547	1956.79768	1968.79623	1955.57978	1954.61171
City of Azusa (Azusa Light & Water)	POU	172.92353	173.82335	173.79283	175.20000	178.13567	178.17283	178.69019	180.59658
City of Banning	POU	93.56675	95.57636	95.13889	96.10240	98.01724	98.20619	98.51252	99.92516
City of Burbank	POU	755.51592	755.02835	752.07208	754.14311	757.38498	758.36086	758.46722	762.01115
City of Cerritos	POU	17.50026	17.74789	17.92537	18.09971	18.51200	18.44809	18.53779	18.59634
City of Colton	POU	234.59860	236.87747	238.57542	239.72435	243.04937	241.88609	242.29232	243.42732
City of Glendale (Glendale Water and Power)	POU	630.36501	622.39965	608.82574	605.95863	610.96464	602.76591	603.21156	612.71273

Utility Name	Utility Type (1)	Annual Allocation in Excess of Expected Ratepayer Cost Burden by Utility							
		2013	2014	2015	2016	2017	2018	2019	2020
PG&E	IOU	6.32372%	5.07286%	2.48283%	3.52492%	5.16830%	6.30135%	6.40242%	8.90797%
LADWP	POU	8.64792%	6.87523%	3.59355%	4.82370%	6.58635%	8.00499%	7.98187%	11.02692%
SCE	IOU	3.89398%	2.99158%	1.08698%	1.89347%	3.08979%	3.88229%	4.12903%	6.44044%
SDG&E	IOU	6.90927%	5.65485%	2.82481%	4.07455%	6.35842%	7.82913%	8.05008%	11.11009%
SMUD	POU	4.49180%	3.89218%	2.30870%	2.81530%	3.59565%	4.18178%	4.14922%	5.37094%
City of Anaheim	POU	10.40192%	8.09440%	3.53562%	5.41445%	8.19020%	9.99746%	9.98418%	13.90046%
City of Azusa (Azusa Light & Water)	POU	1.71413%	1.34594%	0.58648%	0.91102%	1.42592%	1.74042%	1.77150%	2.45732%
City of Banning	POU	2.25102%	1.72312%	0.65579%	1.10899%	1.75572%	2.19085%	2.22420%	3.08765%
City of Burbank	POU	3.21231%	2.37772%	0.82265%	1.46859%	2.40140%	3.02975%	3.07682%	4.31752%
City of Cerritos	POU	1.16026%	0.91507%	0.39653%	0.62758%	0.95845%	1.17118%	1.18765%	1.62868%
City of Colton	POU	2.27501%	1.85033%	1.02553%	1.37746%	1.87039%	2.22907%	2.27087%	2.20540%
City of Glendale (Glendale Water and Power)	POU	1.04636%	0.86514%	0.43352%	0.61610%	0.87559%	1.04968%	1.05362%	1.41172%
City of Pasadena (Pasadena Water and Power)	POU	3.90574%	2.99531%	1.09555%	1.92789%	3.15144%	4.03101%	4.10793%	5.74773%