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**Comments of the Natural Resources Defense Council (NRDC) for the
*Joint CEC/ARB Workshop on Generation Offsets Challenge/AB 1318 Work Plan***

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I. Introduction and Summary

The Natural Resources Defense Council (NRDC) appreciates the opportunity to comment on the draft AB 1318 Report work plan, which was the focus of the joint workshop held in Diamond Bar, CA on February 15, 2011. We represent over 250,000 California members and online activists who value the clean air protection that the California Air Resources Board (CARB) and California Energy Commission (CEC) work to provide.

The complexity of analysis required by AB 1318's directives is incredibly challenging, and we commend the agencies for the detailed needs assessment outlined in the draft work plan released 2/1/11. We believe this report should play a critical role in outlining the future power needs and production possibilities for the SCAB.

Generally, we request that the agencies study the components of the report as strategic variables, and not static projected values. While planners and policymakers cannot directly control variables like technological development, economic growth, and weather changes, they do have the power to choose resource portfolios and investment decisions. This report should empower them with choices. In addition to determining what various agencies are currently planning for their load reduction and resource acquisition portfolios, we suggest the agencies also seek to identify other possible resource procurement scenarios and their subsequent impacts on air quality, so that policymakers can make informed decisions as they continue to plan for the future.

We request the agencies include the following recommendations in both the AB 1318 Assessment Report ("Report") and in the IEPR:

- A. In keeping with the energy resource loading order established in 2003,¹ aggressively study the potential for increased energy efficiency (“EE”) to reduce the need for new in-basin generation and resulting offsets, including a full potential study with associated investment/savings scenarios.
- B. Study multiple renewable procurement possibilities and resulting fossil generation requirements to find the portfolio of lowest pollution and environmental impacts. Study the potential for transmission upgrades to reduce the need for fossil generation.
- C. Consider the potential benefits to the system of the OTC policy. The policy may bring about closure and repowering that will also reduce impacts on coastal ecology, provide more efficient power production and provide improved reliability integration services for renewable power generation. Furthermore, there are no challenges to the offsets allocation scheme for repower proposals.
- D. Increased offset availability should not be allowed if doing so will cause air quality reductions in the SCAB. California’s power planning must meet the requirement of the Clean Air Act and bring about cleaner air and less pollution. Transparency and integrity of the permit system are critical to meeting this objective.

II. Recommendation Details

A. The Report should have increased focus on the potential for energy efficiency to reduce the need for fossil generation in the SCAQMD.

We agree with the draft report’s scope and logical construction; the authors clearly outlined a desire to assess all key factors in energy supply and demand through 2020, including demand side management (“DSM”), renewable generation and integration, transmission improvements, growth, and OTC retirement and repowering. We believe establishing credible scenarios and projections for these factors is a critical precondition to any discussion regarding new fossil generation.

In section [F.2.a.i] (p. 46), the authors acknowledge that “load reducing policy measures” will not be addressed in a current study, the 2011 Transmission Planning Process (TPP), and will need to be addressed by other means. The authors even note that the 2011 TPP will not be sufficient for their needs, because “demand-side policy initiatives that might reduce load and thus the need for either generation or transmission system additions is a crucial element of AB 1318 studies”. We absolutely agree with the authors and commend them for their insight. The Report will require new studies that assess the potential impact of load-reducing policy measures on the SCAB’s generation requirements.

Section [F.2.b] (p. 47) discusses the new studies required to fulfill the Inter-Agency OTC/AB 1318 team’s (“the Team”) data needs. [F.2.b.i] discusses the pathways to developing data

¹ Energy Action Plan. Adopted 5/08/2003 by the Consumer Power and Conservation Financing Authority, California Energy Commission, and California Public Utilities Commission.

http://www.energy.ca.gov/energy_action_plan/2003-05-08_ACTION_PLAN.PDF

on the impacts of LADWP's load-reducing policy initiatives. This section is the only section that discusses the team's efforts to collect DSM data, and it simply says the Team is developing the data, and that it would be helpful if the three utilities in the LADWP balancing authority area would contribute their data. We strongly suggest a more developed analysis of the impact that increased DSM can have on generation requirements in the SCAB. Energy Efficiency is the highest priority resource in California, and should be given more detailed attention by the Report.

The Report should not only assess what the local utilities are planning to do. The Report should also seek to identify the potential impact of a range of EE investments, including significantly more aggressive investments than those currently planned. By identifying the potential for cost-effective EE to impact new generation, the Report will provide planners and policymakers with options as they try to reliably balance supply and demand while complying with state and federal requirements. If increasing DSM investments and encouraging OTC repowers will improve the SCAB's ability to achieve compliance in a cost-effective way, the Report should bear out those scenarios. If not, the Report should show the more effective pathway towards improving air quality. We believe that these kinds of scenario identification and potential impact studies are the essence of the AB 1318 requirements, and should be a major focus of the Report.

Similarly, we hope the IEPR report will highlight the need for full transparency and improved collaboration in DSM planning. The IEPR should also use the SCAB example as a prime reason for all utilities to have full EE potential studies and aggressive EE investment plans for their customer territory.

B. The Report should study multiple renewable generation scenarios to minimize needs for polluting resources inside the SCAB.

The authors of the Report have outlined the need to assess renewables development, especially in light of the 33% goal set by the agencies. We commend them for their focus on this issue.

High penetration of diverse renewable resources may require less fossil backup than previously thought. We urge the authors of the report to study a range of renewable resource procurement and balancing scenarios that require the least amount of polluting generation for backup.

Similarly, the Report should identify opportunities for transmission upgrades that could reduce the need for additional fossil generation. This effort should go beyond what is already planned, and should identify strategic opportunities to actively utilize transmission upgrades to reduce pollution in the SCAB, with cost estimates that can help policymakers make choices with as much information as possible.

C. The Report should address the potential for OTC repowers to benefit the system.

We hope the Report will include a full assessment of how a combination of plant shut-downs and strategic repowers might impact the need for new fossil generation and emissions permits. Implementation of the OTC plan could provide improved air quality and

will not necessarily impact the reliability of the electric system. Plant operators that choose to pursue repowering could provide significant system benefits if the repowered plant is more efficient, cleaner, faster and better capable of providing renewable system integration services. Repowering provides an obvious additional value as there has been no challenge to the provisions of SCAQMD Rule 1304 that covers this type of modification. The Report should examine whether the dirtiest and most antiquated fossil plants in the basin will continue to be necessary for reliability, and if so, for how long. To the extent that they are no longer necessary for reliability, the Report should examine how the SCAQMD could encourage shut downs of the dirtiest plants to improve air quality in the SCAB.

D. Any study regarding changing the offset mechanism should thoroughly consider whether or not the proposed changes will comply with the Clean Air Act or compromise the air quality of the SCAB.

The Emission Reduction Credit (ERC) regime is a market mechanism that signals the cost of pollution. The authors are required to assess options for increasing the availability of ERCs should their analysis conclude an increased need for fossil generation in the SCAB. For each identified option, we strongly urge the authors to assess whether the change would undermine the credibility and integrity of the ERC regime. The Report should clearly explain how the integrity of the pollution reduction regime will be maintained or improved under any proposals to increase ERC allocations. Furthermore, the analysis should consider how to improve transparency of the ERC regime, which has been the source of much of the legal and policy disputes thus far.

III. Conclusion

In sum, we recommend the agencies focus on identifying a range of pathways that can deliver clean air and reliable energy services.

We appreciate the opportunity to comment on the working draft of the AB 1318 report and on the February 15, 2011 joint workshop. We thank the agencies for their efforts to address this critical issue and we commend the authors of the draft Report for their ambitious scope.