April 30, 2015

Honorable Mark Leno, Chair
Joint Legislative Budget Committee
Honorable Shirley N. Weber, Chair
Assembly Budget Committee
Honorable Ricardo Lara, Chair
Senate Appropriations Committee
Honorable Jimmy Gomez, Chair
Assembly Appropriations Committee

Emergency Drought Relief Legislation—Cap and Trade Expenditures

Pursuant to the provisions of Items 3860-001-0001, 3860-101-3228, and 3860-301-3228, Budget Act of 2014, the following report is respectfully submitted.

Chapter 1, Statutes of 2015, (AB 91) appropriates $20 million Greenhouse Gas Reduction Fund for the following purposes:

- $10 million for the Department of Water Resources (DWR) for a grant program to support local water-use efficiency projects.
- $10 million for the DWR for energy efficiency projects at State Water Project facilities.

Prior to the expenditure of these funds, provisional language requires that the Legislature be notified of the following: (1) a description of proposed expenditures, (2) how the expenditures will further the regulatory purposes of the California Global Warming Solutions Act of 2006 (AB 32), (3) how the expenditures will achieve specified greenhouse gas emission reductions, (4) how the agency considered other objectives of AB 32, and (5) how the agency will document expenditure results.

The Department of Finance has received the attached documents from DWR that describes how the programs will reduce water use and achieve greenhouse gas emission reductions.

We concur that the expenditure of these funds will further the regulatory purpose of AB 32.

If you have any questions or need additional information regarding this matter, please call Matt Almy, Assistant Program Budget Manager, at (916) 324-0043.

MICHAEL COHEN
Director
By:
Attachment

cc: Honorable Jim Nielsen, Vice Chair, Senate Budget and Fiscal Review Committee
    Honorable Jeff Gorell, Vice Chair, Assembly Budget Committee
    Honorable Jim Beall, Chair, Senate Budget and Fiscal Review Subcommittee No. 2
    Honorable Richard Bloom, Chair, Assembly Budget Subcommittee No. 3
    Mr. Mac Taylor, Legislative Analyst (3)
    Mr. Mark Ibele, Staff Director, Senate Budget and Fiscal Review Committee
    Mr. Mark McKenzie, Staff Director, Senate Appropriations Committee
    Mr. Seren Taylor, Staff Director, Senate Republican Fiscal Office
    Mr. Craig Cornett, Senate President pro Tempore's Office (2)
    Mr. Christian Griffith, Chief Consultant, Assembly Budget Committee
    Mr. Geoff Long, Chief Consultant, Assembly Appropriations Committee
    Mr. Eric Swanson, Staff Director, Assembly Republican Fiscal Committee
    Ms. Deborah Gonzalez, Policy and Fiscal Director, Assembly Republican Leader’s Office
    Mr. Christopher W. Woods, Assembly Speaker's Office (2)
Government Code Section 16428.9 requires the preparation of a record prior to the expenditure of any monies by a state agency from the fund. That record includes the following:

(1) A description of each expenditure proposed to be made by the state agency pursuant to the appropriation.

On March 27, 2015 the Department of Water Resources (DWR) was appropriated $10 million in Greenhouse Gas Reduction Funds in AB 91 (Committee on Budget), which amended the 2014-15 Budget Act to provide the $10 million as capital outlay support to “water energy efficiency projects.”

[DWR had proposed, in the Governor’s 2014-15 Budget, funding to replace and retrofit two hydroelectric turbines in DWR State Water Project (SWP) facilities. The purpose of the replacement and retrofit would be to increase the efficiency of the clean hydroelectric generation, and in turn reduce the SWP’s need to purchase that incremental equivalent of “brown” electricity on the wholesale market. The ensuing savings in the amount of electricity purchased has a corresponding savings in greenhouse gas emissions.

(2) A description of how a proposed expenditure will further the regulatory purposes of Division 25.5 (commencing with Section 38500) of the Health and Safety Code, including, but not limited to, the limit established under Part 3 (commencing with Section 38550) and other applicable requirements of law.

The proposed expenditure would provide $10 million to [1] improve water use efficiency, [2] save energy, and [3] reduce greenhouse gas emissions from state water management systems. The funding will be used to replace two hydroelectric generation turbines – one at the Hyatt Unit within Oroville Dam, and one at the Thermalito Unit, just down river from Oroville Reservoir. Replacing these units would make them more efficient, producing more clean hydroelectric energy with the same amount of water, which would reduce the energy that the SWP would need to purchase on the wholesale market – reducing the GHG emissions of the SWP. With that reduction, the project will assist in reducing greenhouse gas emissions within the energy sector, and as such will further the regulatory purpose of AB 32.

(3) A description of how a proposed expenditure will contribute to achieving and maintaining greenhouse gas emission reductions pursuant to Division 25.5 (commencing with Section 38500) of the Health and Safety Code.

The SWP operates in the wholesale energy market for the purchase of electricity to operate the system. The Cap-and-Trade Investment Plan specifically recommends that the revenues be used to invest in Energy Efficiency and Clean Energy priorities – including “energy efficiency in water pumping and conveyance.”
The estimated reduction in greenhouse gas emissions per year as a result of the replacement of these turbines would be 4,500 - 6,500 metric tons for the Hyatt unit, and 1,500 - 2,100 metric tons for the Thermalito Unit. This emission reduction estimate is based on production of 19,833 MWHs of clean energy per year multiplied by California electricity generation baseload and non-baseload emission factors for GHG emissions per megawatt hour for market energy. It is anticipated that the projects will have a useful life beyond 2020, helping the state maintain post-2020 GHG reduction goals.

(4) A description of how the state agency considered the applicability and feasibility of other nongreenhouse gas reduction objectives of Division 25.5 (commencing with Section 38500) of the Health and Safety Code.

Division 25.5 of the Health and Safety Code includes other objectives beyond the simple reduction in greenhouse gas emissions. These include such objectives as the equitable distribution of costs and benefits to Californians, the prevention of disproportionate impacts on low-income communities, reductions in other air pollutants, diversification of energy sources, benefits to the economy, environment, and public health, the cost-effective implementation of AB 32, and minimizing the administrative burden of implementing requirements of AB 32. Many of these objectives are not directly applicable to the expenditure of Greenhouse Gas Reduction Funds, rather they appear to be intended to guide the Air Resources Board’s implementation of its regulatory authority. However, the applicability of elements of these objectives can be viewed as applicable to the expenditure of the funds.

Development of additional renewable energy generation capacity, through the efficiency improvements at Thermalito and Hyatt, will reduce energy generation costs, produce additional renewable energy, and help the state diversify our energy sources.

(5) A description of how the state agency will document the result achieved from the expenditure to comply with Division 25.5 (commencing with Section 35800) of the Health and Safety Code.

Water Code Section 142 requires DWR to annually report to the Governor and the Legislature annually on its efforts to reduce dependency upon fossil fuels. The department has included in this report an accounting of its energy purchases and use. The results achieved by this proposed expenditure would be identified in the reporting, as well as in the SWP documentation associated with the billing of water contractors for the costs of operating the SWP.

In addition, program status and benefits, including GHG emission reductions, will be reported in the Department of Finance’s annual report on Greenhouse Gas Reduction Fund expenditures, as required by Health and Safety Code Section 39720.