



April 8, 2010

California Air Resources Board
Stationary Source Division
Energy Section
1001 I Street
Sacramento, CA 95814

Via e-mail: gcollord@arb.ca.gov

Subject: Comments of Bear Valley Electric Service and Mountain Utilities on the California Air Resources Board Preliminary Draft Regulation for the California Renewable Electricity Standard

On March 18, 2010 the California Air Resources Board (CARB) issued its Preliminary Draft Regulation for the California Renewable Electricity Standard (RES). CARB encouraged stakeholders to provide comments on the proposed regulations. As stakeholders highly interested in CARB's work related to RES, Bear Valley Electric Service, a division of Golden State Water Company (GSWC), and Mountain Utilities offer additional comments¹ for consideration by CARB as it continues to develop key regulations.

These joint comments address:

- Support for the exemption for small regulated parties
- Tradable Renewable Energy Credits to satisfy RES Requirements

I. Bear Valley Electric Service and Mountain Utilities

Bear Valley Electric Service (BVES), a small investor owned utility (IOU), owns and operates an electric distribution system that provides electric utility service to about 23,000 customers in its service area in the Big Bear Lake area of San Bernardino County, California. BVES provides electric service primarily to residential customers in a resort community with a mix of full-time and part-time residents, but also to about 1,500 commercial, industrial, and public-authority customers, including two ski resorts. In the summer months, the load in the

¹ BVES submitted comments dated November 20, 2009. BVES and MU joined other utilities in the submission of Joint Comments regarding allowances on March 26, 2010.

service area ranges from a minimum of about 11 megawatts (MW) to a peak of about 23 MW. In the winter months, the peak load can reach 43 MW when the snowmaking machines at the ski resorts are operating. BVES owns and operates a natural gas-fired 8.4-MW generation facility in its service area to meet peak demand and purchases wholesale capacity and energy to meet the majority of the demand and energy requirements of its electric customers.

Mountain Utilities (MU) is an electric microutility as defined in Public Utilities Code Section 2780 and is California's smallest jurisdictional electric utility. MU serves approximately 700 customers in the High Sierra community of Kirkwood and is the sole source of electric energy to these customers, without access to any electric transmission. By orders of magnitude, MU falls below the 200 GWh standard.

While fully supportive of the State's and CARB's efforts toward increased renewables in customer's electrical supply, BVES and MU respectfully request that CARB consider and, if possible, ameliorate the negative impacts of a 33% RES on small utilities that do not have the same range of options or depth of resources as the larger utilities in California.

II. Applicability of the Renewable Electricity Standard

THRESHOLD LEVEL: In its initial Proposed Concept Outline for the RES, CARB staff proposed an exemption threshold of 500 GWh per year in retail sales such that any entities subject to the CARB's regulation would be exempt from the RES if retail sales are less than the exemption threshold. In its more recent Preliminary Draft Regulation issued on March 11, 2010 and discussed at the March 18 workshop, the CARB reduced the exemption threshold to 200 GWh per year from the original 500 GWh threshold.

BVES and MU encourage CARB to either restore the higher threshold of 500 GWh or, at a minimum, not reduce the threshold value any lower than currently proposed at 200 GWh per year. Additional discussion on the rationale for lowering the threshold might be beneficial, since the higher threshold would still encompass the vast majority of electric generation in California. Also, during a time of economic stress for the state of California, the higher threshold will reduce the CARB's administrative, legal and resource requirements to enforce the RES. The CARB's efforts, if evaluated on a cost/benefit basis, might enable it to achieve California's RES goals with the higher threshold.

IMPLEMENTATION: The CARB has stated it is evaluating whether the exemption should be granted to regulated parties on the basis of a specific year or allowing exemption for any regulated party falling below a volumetric threshold. In addition, the CARB is evaluating how a regulated party that was previously exempt should meet RES requirements if the threshold is exceeded. BVES and MU support an exemption based on a volumetric threshold that is exceeded over

the course of several years, not just once or twice. Doing so will reduce or eliminate the great administrative and financial burden associated with the procurement of renewable energy faced by small regulated parties.

Regarding how a previously exempt regulated party should meet the RES if it exceeds a volumetric threshold, BVES is skeptical that phasing in compliance is the best approach for such parties. Given BVES' own experience in attempting to comply with the current, CPUC-mandated 20% RPS goal, BVES and MU would prefer treatment for small utilities that offers as much flexibility as possible in the fulfillment of the RES requirements. Interim targets would only increase the administrative burden and related costs that customers must ultimately bear in rates.²

III. Renewable Electricity Standard Requirements

BVES and MU will likely use TRECs for compliance with the California RPS given the CPUC's recent Final Decision 10-03-021 authorizing the use of TRECs. While BVES and MU support exemption from the RES under the proposed threshold of 200 GWh, we further support the use of TRECs for compliance with the RES. BVES and MU strongly believe that achieving the 33% RES in a cost effective manner will require the unlimited use of unbundled and undelivered RECs without added requirements for deliveries from out of state facilities.

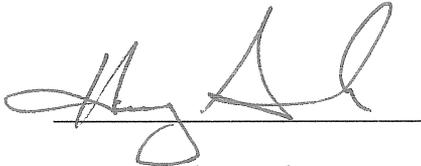
Stated another way, BVES and MU support the CPUC's Final Decision on the broad use of RECs and TRECs for RPS compliance but believe less rigid requirements are appropriate to achieve the 33% RES. Rigid delivery requirements may alienate developers from a state that is already awash in stakeholders that have the ability to prevent new development.

Finally, BVES and MU agree with the CARB's proposed rules regarding the banking and trading of RECs because the rules would be administratively easy for small utilities to observe and use.

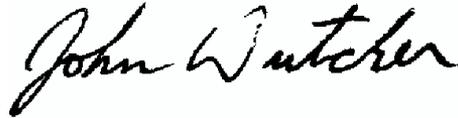
² BVES and MU strongly encourage CARB to reinstate a threshold of 500 GWh per year.

In closing, BVES and MU appreciate the opportunity to submit comments to CARB as it carefully drafts RES regulations that will have a significant impact on BVES and MU and their customers. If you would like to discuss any of the above information further, please contact Tracey Drabant of BVES at (909) 866-1666 or John Dutcher of MU at (707) 426-4003.

Sincerely,



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