

**BEFORE THE
AIR RESOURCES BOARD
OF THE
STATE OF CALIFORNIA**

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMMENT ON THE ALLOWANCE HOLDING LIMIT
IN THE CAP AND TRADE REGULATION**

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TABLE OF CONTENTS

I. INTRODUCTION AND SUMMARY..... 2

**II. THE HOLDING LIMIT SHOULD BE ADJUSTED TO ACCOMMODATE
LARGE COVERED ENTITIES. 3**

III. CLARIFY THE LIMITED EXEMPTION FROM THE HOLDING LIMIT. 4

IV. CONCLUSION 6

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I. INTRODUCTION AND SUMMARY

The Southern California Public Power Authority (“SCPPA”)¹ respectfully submits this comment on the allowance holding limit in subarticle 11 of the proposed regulation entitled *California Cap on Greenhouse Gas Emissions and Market-based Compliance Mechanism* (“Cap and Trade Regulation”) released by the California Air Resources Board (“ARB”) on October 28, 2010.

SCPPA separately provided comments on other aspects of the Cap and Trade Regulation on December 1, 2010, and on the revisions to the Regulation for the Mandatory Reporting of Greenhouse Gas Emissions on December 5, 2010.

In summary, SCPPA recommends that:

- To allow large covered entities appropriate flexibility to bank allowances, the holding limit for an entity should be the higher of the currently proposed limit or twice the entity’s most recent annual emissions burden.
- The limited exemption from the holding limit should be clarified, and calculation of the exemption should take into account the fact that the verification statement for each year’s emissions will not be available until late the following year.

¹ SCPPA is a joint powers authority. The members are Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, Los Angeles Department of Water and Power, Imperial Irrigation District, Pasadena, Riverside, and Vernon. This comment is sponsored by Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, the Imperial Irrigation District, Pasadena, and Riverside.

II. THE HOLDING LIMIT SHOULD BE ADJUSTED TO ACCOMMODATE LARGE COVERED ENTITIES.

Section 95920(b) of the Cap and Trade Regulation (at A-105) provides for a limit on the number of allowances an entity can hold. The holding limit starts at approximately 6 million allowances in 2012 plus a “limited exemption” for allowances that are held in a covered entity’s compliance account up to a level based on previously reported emissions as specified in section 95920(b)(4) (at A-105-106). The holding limit and the exemption would not allow a large covered entity to bank many allowances beyond its compliance obligation – less than half of one year’s emissions for entities that have emissions that exceed 12 million tonnes per year. This is too restrictive, given that banking is an important market stabilization and cost containment measure.

To give large covered entities more flexibility and to retain the flexibility already afforded to smaller entities, the holding limit for each entity should be set at the higher of:

- the amount calculated using the formula in section 95920(b)(3); or
- twice the sum of the emissions reported in the entity’s most recent set of verified emissions reports. (Note that a utility may have more than one emissions report and verification statement, as each generating facility and imported electricity must be reported and verified separately.)

Market participants that are not covered entities, such as voluntarily associated entities, will not have an emissions burden, so the applicable holding limit will be the amount calculated using the existing formula in section 95920(b)(3) (the “Base Limit” in the wording proposed below).

Section 95920(b)(3) should be revised as follows:

Calculation The holding limit will be calculated and applied to each entity within each calendar year using the following formula:

Holding limit = The Base Limit or the Emissions Burden Limit, whichever is higher. ~~$0.1 * \text{Base} + 0.025 * (\text{Annual Allowance Budget} - \text{Base})$~~

In which:

“Base Limit” = $0.1 * \text{Base} + 0.025 * (\text{Annual Allowance Budget} - \text{Base})$

“Base” equals 25 million metric tons of CO₂e.

“Annual Allowance Budget” is the number of allowances associated with the current budget year pursuant to subarticle 6.

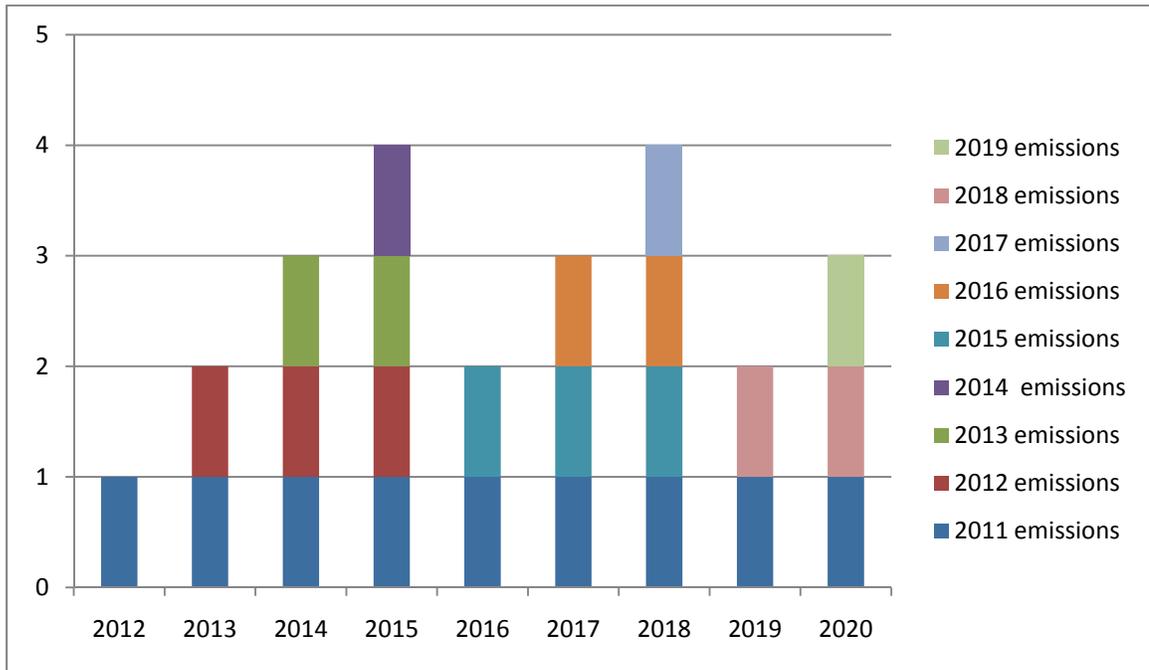
“Emissions Burden Limit” means twice the sum of the entity’s verified emissions in the most recent year for which verification statements have been submitted.

III. CLARIFY THE LIMITED EXEMPTION FROM THE HOLDING LIMIT.

Section 95920(b)(4) sets out the limited exemption from the holding limit for allowances held in a covered entity’s compliance account. This exemption should be retained, as it is crucial to allow for the accumulation of allowances for surrender at the end of the compliance period.

However, the drafting of the exemption provision should be clarified. The following graph reflects a literal interpretation of the exemption provisions in section 95920(b)(4). The graph shows the exemption from the holding limit for each year based on the previous years’ emissions, which appears to be the intention of section 95920(b)(4)(B). For example, in 2014 the holding limit exemption for an entity would be that entity’s 2011 emissions plus its 2012 emissions plus its 2013 emissions. Emissions from 2011 are included in each year, given the language in sections 95920(b)(4)(A) and (C). The first compliance period’s emissions are deducted from the exemption at the end of 2015 and the second compliance period’s emissions are deducted at the end of 2018, as apparently required by section 95920(b)(4)(C). For simplicity, the graph assumes that annual emissions remain the same throughout 2011-2020.

Graph: Exemption from holding limit



SCPPA seeks staff confirmation that the limited exemption is intended to operate as shown in the graph.

The calculation of the exemption should take into account the fact that the verification statement for each year's emissions will not be available until late the following year. Under section 95920(b)(4)(A), the exemption is based on emissions reported in a verification statement covering the previous calendar year. This is problematic because an electric power entity's verification statement for a year is not due until October 1 of the following year. How will the exemption be calculated prior to that date?

Furthermore, section 95920(b)(4) as currently drafted assumes that there will be only one verification statement per entity, but an entity may have more than one verification statement each year, if it operates more than one facility.

The clearest and simplest way to draft the limited exemption provision may be to state how the exemption is calculated for each year 2012 through 2020, year by year, rather than using general provisions.

IV. CONCLUSION

SCPPA urges the ARB to consider these comments in finalizing the California cap and trade program. SCPPA appreciates the opportunity to submit these comments to the ARB and looks forward to working with the staff of the ARB to refine the holding limit provisions.

Respectfully submitted,

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