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www.arb.ca.gov/cc/capandtrade/comments.htm

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California Air Resources Board
1001 I Street
Sacramento, CA

Re: Comments of the **Northern California Power Agency** on the CARB Workshop on
*Linking California's Cap-and-Trade Program to Other Greenhouse Gas Trading
Programs*

Dear Ms. VanOmmering:

The Northern California Power Agency¹ (NCPA) appreciates the opportunity to submit these comments to the California Air Resources Board (CARB) in response to the July 27th Workshop *Linking California's Cap-and-Trade Program to Other Greenhouse Gas Trading Programs* (Workshop).

NCPA's position on this important issue is clear: the effectiveness of any cap-and-trade program that is implemented in California will be seriously compromised if not carefully linked to other regional and/or federal programs that develop. Allowing the use of compliance instruments from other jurisdictions – most notably members of the Western Climate Initiative (WCI) – should enable California's cap-and-trade program to operate more efficiently and provide additional cost containment options for California's compliance entities. That said, in order to ensure that California entities are not harmed as the program is linked with other jurisdictions, CARB must guarantee certain minimum standards to maintain program integrity.

Further elaboration of this position is provided in the remainder of these comments, organized in a manner that can be cross-referenced to the specific questions raised by CARB Staff during the Workshop.

Scope of Linked Jurisdiction Programs Must Be Carefully Considered

NCPA supports CARB's desire to link its cap-and-trade program to other jurisdictional programs that maintain goals that are consistent with California Assembly Bill (AB) 32 objectives.

¹ NCPA members include the cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, and Ukiah, as well as the Bay Area Rapid Transit District, Port of Oakland, the Truckee Donner Public Utility District, and the Turlock Irrigation District, and whose Associate Members are the Plumas-Sierra Rural Electric Cooperative and the Placer County Water Agency.

However, it is clear from the current cap-and-trade debate that some jurisdictions that California may ultimately link with will have cap-and-trade programs that are more limited in scope, which could be administratively complicated.

As an example, the Regional Greenhouse Gas Initiative (RGGI) cap-and-trade program, currently operating in the Northeastern part of the nation, includes only the electricity sector. In contrast, the program currently under contemplation by the WCI will eventually include the entire economy.² Regardless of the scope, California should be able to link with any program that meets the program specifications of AB 32 and the CARB Scoping. CARB Staff acknowledged during the Workshop potential policy and political implications associated with linking with other jurisdictions, however, CARB still has an obligation to thoroughly investigate the range of implications that may be part of linking with a program of limited scope. To the extent there may be practical implications in the way that the allocations are allocated or revenues and auction proceeds are distributed, it may be necessary to design special program features that protect California consumers from adverse impacts.

Program Integrity Is Paramount to Program Success

It is imperative to the success of California's program that the compliance instruments allowed from other jurisdictions are subject to the same restrictions and limitations as those that are generated within California. Of primary concern to NCPA is the impact that alternate allowance allocation methodologies might have on the California electricity sector. The manner in which a jurisdiction distributes allowances to sectors and entities within a sector can significantly impact sectors in other jurisdictions, as well as the total costs of compliance. Even the WCI has acknowledged this principle, asserting that it may be necessary to readjust allowance allocation recommendations in the event that certain sectors or industries are adversely impacted.³ In light of the potentially significant economic implications, CARB must evaluate the overall structure of a proposed linking partner in order to ensure that the program's organization is consistent with those of AB 32.

Market Protections Must Be Maintained

NCPA acknowledges that linked cap-and-trade programs will provide opportunities for entities to utilize a broader range of compliance instruments to meet mandatory emissions reduction obligations. While economic theory suggests that increased liquidity in the market decreases opportunities for market power abuses, this would only be true if each linked jurisdiction has a well-functioning market. Before linking to another program, California stakeholders must be assured that the linked jurisdiction's rules governing its own allowance market – for either actual emissions allowances or offsets – are consistent with the rules adopted in California. The potential benefits of having a broader range of compliance instruments available can completely be negated by a poorly structured cap-and-trade system outside the state, exposing consumers to a wide range of undetermined market abuses and manipulation.

² Under the WCI Design Recommendations, the first compliance period, beginning in 2012, will cover emissions from electricity, industrial combustion at large sources and industrial process emissions. Transportation, as well as gules combusted at industrial, residential, and commercial buildings will be added beginning 2015. (Design Recommendations for the WCI Regional Cap-and-Trade Program, September 23, 2008, p. 17)

³ WCI Design Recommendations, Section 8.5, p. 7.

Impact on Abatement Costs

During the Workshop, Staff noted the differences between an entity's potential compliance costs versus actual abatement costs. Abatement costs – emitters' net expenditures to reduce emissions – would not necessarily decrease with an expanded market, regardless of the potential impacts on overall compliance costs. It is possible for the State as a whole to benefit from receipt of increased revenues in instances where California would be a net seller of allowances, while certain compliance entities would be faced with an increase in their total abatement costs.

California's linking rules must include a means to address instances where specific sectors or industries in the state are unduly harmed, even if the State as a whole is benefiting from the linked program. During the Workshop, Staff acknowledged that it may be necessary for the State to have program rules that would "protect" certain industries or sectors if necessary. NCPA supports CARB's review and assessment to determine if such protections are necessary.

California's electricity ratepayers should not have to bear even greater compliance costs when their retail providers are faced with ever increasing abatement costs. In the event that the linked program does provide an overall benefit to the State but increases abatement costs for specific sectors or industries, the adversely affected entities should be able to receive assistance from the State – in the form of freely allocated allowances, for example – to facilitate meeting compliance obligations. Linking should not leave any California compliance entities in a worse position than had the programs not been linked.

Preferred Approach for Developing Program Requirements

NCPA concurs with Staff's initial proposal to develop program requirements in regulatory language and delegate to CARB's Executive Director the authority to review proposed requests to link programs to California. Doing so will allow CARB to effectively verify that the program meets all of the conditions and requirements set forth in the adopted regulations, while protecting the interests of California consumers.

Conclusion

NCPA supports CARB's interest in linking California's cap-and-trade program to other programs in order to offer additional cost-containment tools for compliance entities. If you have any questions regarding these comments, please do not hesitate to contact the undersigned or Scott Tomashefsky at 916-781-4291 or scott.tomashefsky@ncpa.com.

Sincerely,
MCCARTHY & BERLIN, LLP



C. Susie Berlin

Attorneys for the Northern California Power Agency