M E M O R A N D U M

TO: California Air Resources Board

FROM: Modesto Irrigation District
Redding Electric Utility
Turlock Irrigation District

SUBJECT: Linking California's Cap-and-Trade Program to Other Greenhouse Gas Trading Programs

DATE: August 21, 2009

Introduction

Modesto Irrigation District ("MID"), Redding Electric Utility ("REU"), and Turlock Irrigation District ("TID"), collectively the "Utilities," appreciate the opportunity to provide comments regarding "Linking California's Cap-and-Trade Program to Other Greenhouse Gas Trading Programs".

Acknowledging that a disproportionate share of the emission reduction burden will fall on the electric sector, the Utilities continue to focus on achieving compliance with AB 32 with the lowest possible impact on ratepayers and grid reliability. To that end, retail electric service providers must have the ability to manage their portfolio of options (tools) to meet greenhouse gas (GHG) emission goals in a way that is cost effective and best serves their customers. Linking California's cap-and-trade program to other markets will undeniably decrease the costs capped entities will incur in meeting their compliance obligations, which in turn will provide available revenue to invest in real GHG reductions through and beyond direct regulatory requirements.

It is essential that California's GHG reduction program harmonizes with a regional and/or federal GHG reduction program so that there is a single system and not multiple layers of compliance complicated by jurisdictional overreach.

The Utilities

MID, REU and TID are local publicly owned electric utilities. MID and TID are irrigation districts located in the Central Valley and REU is a municipal utility within the City of Redding. MID serves over 110,000 electric customers with a peak load around 650 Megawatts (MW). TID serves about 100,000 electric customers with a peak load of approximately 600 MW. REU serves 43,000 customers with a peak load of 247 MW. The Utilities maintain similar resource mixes, including hydroelectric, eligible renewables and fossil fuel sources. They also share similar challenges, including weather patterns, demographics and economics. The Utilities have consistently supported the goals of AB 32 and participated in CARB's effort to create a successful program to implement these goals. The Utilities continue to urge CARB to move forward in a manner that protects the reliability of the electric grid and maintains the Utilities' efforts to provide reliable and affordable power to their customers.

Beyond its WCI Partners, to Which Program Should California Consider Linking?

Because the reduction of GHGs is a global issue, California should link to as many other cap-and-trade markets as possible, assuming they are comparably stringent and can be relatively measured. By having a broadened market, those entities with a compliance burden will benefit from a broader array of compliance options resulting in reduced emission abatement costs, which in turn will benefit the State and its consumers with more reductions at a lower overall cost. These reduced costs are achieved from increased market liquidity, cost containment, and flexibility when compared to a California-only trading program.

Obviously, linking to national and international programs that may be developed will be critical to California's successful reduction of world-wide carbon emissions.

What Kinds of Links (Bilateral, Unilateral, etc.) Should California Establish?

The Utilities believe that California should establish Bilateral linkage whenever possible. Bilateral linkage removes competitive concerns between the jurisdictions, decreases any perceived threats from linking to other programs, and ensures costs are adequately balanced. However, the Utilities believe that the possibility should not be excluded of linking unilaterally to jurisdictions producing qualified offsets where sufficient protections can be developed to avoid distributional and economic imbalances.

Which Implications – Advantages or Disadvantages – Are the Most Important for CARB to Consider When Evaluation Whether to Link With Another Program?

CARB outlined possible requirements for linking in slides 37-38 from its July 27, 2009 workshop. The Utilities believe that all of these proposed requirements must be considered; however, it is critical that a similar measurement and reporting method, or a valid methodology for comparing measures, is available to ensure that "a ton is a ton". It is also critical that similar levels of environmental stringency and enforcement exist among linked programs.

In addition, revenue disbursement should be administered separately by each market.

The benefits of any measure that promotes compliance with AB 32 should be recognized. Linking to another program should include the value of its co-benefits, and a program should not be measured based on local co-benefits, or excluded because of its lack thereof.

What Details on Linkage Should Be Included or Excluded From The Regulatory Language?

Quantitative limits should not be imposed to linkage. Such criteria would limit the options that a capped entity could invest in, and has the potential to increase the total cost of the allowance market.

Flexible compliance mechanisms such as early action credits, offsets, banking, and borrowing, which would be recognized as the equivalent of allowances from linked programs, are essential as they can act as a pressure relief valve to avoid drastic unanticipated spikes in allowance prices.

Conclusion

The Utilities appreciate the opportunity to put forth the above proposal on “Linking California’s Cap-and-Trade Market to Other Greenhouse Gas Markets” and would welcome the chance to work with CARB and a designated working group to develop these concepts further.

Respectfully submitted,

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