



July 13, 2010

Ms. Mary Nichols, Chair, and Members of the
California Air Resources Board
1001 "I" Street
Sacramento, CA 95814

RE: Cap-and-Trade Regulation

Dear Ms. Nichols and members of the Board:

Thank you for providing the additional June 2010 workshops on the Cap-and-Trade Regulation, specifically on "Cost Containment Options" and the "Update on Offsets and Linkages". We appreciate this opportunity for comment as the cap-and-trade regulatory process continues to evolve. Following are areas of concerns that we would like to submit for the Air Resources Board's (ARB) consideration:

Allocation of Allowances: We certainly support the recommendation for a **free** allocation of allowances, which is critical for cost-containment. This free allocation approach should be instituted and maintained with an auction process evaluated only after several years of experience with the program. Free allowances are particularly critical for energy-intensive businesses and other companies that may move across state or international boundaries (leakage) to provide temporary cost mitigation during the initial transition period.

Flexibility of Allowances: In addition to the free allocation of allowances, the program should provide for banking of allowances for future use and borrowing from future compliance periods.
110 West C Street, Suite 900 San Diego, CA 92101

Allowance Trading: Trading should be allowed between facilities that are owned or operated by the same entity and also between two facilities that have a direct and interconnected relationship to each other.

Longer Compliance Periods: Longer compliance periods, with a minimum of three years, are needed to address changing demand and supply and reducing the volatility in allowance pricing.

Price Collars: Price collars that set both maximum and minimum price controls should be instituted.

Offsets: It is our position that the limit the supply of offsets to 4% of a facility's greenhouse gas emissions and even the June 22 recommendation that increasing the amount to 8% if prices become too high is still an inadequate supply of offsets.. We certainly agree that offset protocols must have strict criteria to be real, additional, permanent, verifiable, enforceable and high quality. If all of those conditions are met, then the wide-scale use of offsets across jurisdictional lines, linkages with other regional registries and even on the international level, should be allowed.

Complexity and Timing of Regulation: While the webinars and workshops have been very helpful and productive and staff is very responsive to phone inquiries, there is still an enormous amount of information and materials that need to be analyzed in the context of an individual facility's operations to determine the outcomes and impacts for that facility. We would ask that the Air Resources Board re-evaluate and re-establish a less stringent implementation timeline.

Setting Baselines: The manner in which the analysis for benchmarks and setting the baseline for each industry is still uncertain. It is difficult for a company to evaluate their situation and provide more substantive comment on the effect of the cap-and-trade system without additional information.

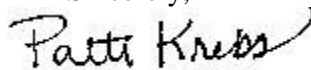
Receiving Credit for Voluntary Actions: It still is not clear how and to what extent companies will receive credit for voluntary actions they have already undertaken.

In summary, companies who are members of our organization have complex and integrated operational and process requirements. It takes time to analyze the regulations, consider capital operational and infrastructure improvements and develop a business continuity and compliance strategy in the new era of greenhouse gas emission reductions.

Without additional flexibility in the Cap-and-Trade regulation above and beyond what was proposed at the June 22 workshops, the uncertainties and costs to facilities will be of such a magnitude they will more readily consider moving all or part of their facilities and operations across state or international lines.

Thank you for your consideration of our comments, and we look forward to continuing to work with the board as the regulatory process unfolds. 110 West C Street, Suite 900 San Diego, CA 92101

Sincerely,

A handwritten signature in black ink that reads "Patti Krebs". The signature is written in a cursive, flowing style.

Patti Krebs
Executive Director