BEFORE THE
AIR RESOURCES BOARD
OF THE
STATE OF CALIFORNIA

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY COMMENT ON ISSUES DISCUSSED IN CAP AND TRADE REGULATION STATUS UPDATE ON MAY 17, 2010

Norman A. Pedersen, Esq.
HANNA AND MORTON LLP
444 South Flower Street, Suite 1500
Los Angeles, California 90071-2916
Telephone: (213) 430-2510
Facsimile: (213) 623-3379
E-mail: *npedersen@hanmor.com*
lmitchell@hanmor.com

Attorney for the **SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**

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I. INTRODUCTION AND SUMMARY

The Southern California Public Power Authority ("SCPPA")[1] respectfully submits this comment on the issues discussed at the workshop conducted by the California Air Resources Board ("ARB") on May 17, 2010 entitled *Greenhouse Gas Cap-and-Trade Regulation Status Update*. This workshop raised key issues concerning the proposed cap and trade program, including allowance allocation, cost containment, and leakage prevention.

In order to help ensure that the cap and trade program can be implemented without excessive costs to consumers and to help ensure a smooth transition to a low-carbon economy, SCPPA makes the following recommendations, in summary:

Allocation of allowance value to electricity sector

- Allocating allowances to regulated electricity retail providers ("local distribution companies" or "LDCs") should fall into the first tier of uses of allowance value rather than the second tier. Like other first-tier uses, allocating allowances to the LDCs would contain the cost of AB 32 to consumers and help to prevent leakage. Regulation of the LDCs will ensure that all allowance value allocated to them will be used to benefit consumers rather than company shareholders.
- In 2012, allowance value should be allocated to the electric sector in an amount equal to 100 percent of the sector's historical emissions, for example, the average annual electric sector emissions over the three-year period ending prior to the January 1, 2007, the

[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, Imperial Irrigation District, Pasadena and Riverside.

effective date of AB 32. The allocation should continue into the future, declining over time in proportion to the decline in the emissions cap.

- If the use of electric vehicles rises substantially in the future, the allocation of allowances to LDCs should increase to reflect the increased demand for electricity as a low-emissions transport fuel.
- The uses to which the LDCs can put their allocation of allowance value should not be limited to renewable energy. LDCs undertake many other emission-reducing activities for the benefit of the public.

Allocation of allowance value for other purposes

- The allowances allocated to the Price Mitigation Allowance Reserve should not be drawn from the emissions cap set at expected 2012 emissions. This would reduce the number of allowances available for immediate use and would be likely to increase allowance prices rather than containing them. Instead, an upper allowance budget should be set at the level of estimated 2012 emissions in the absence of the recent economic recession and any post-AB 32 implementation early emission reductions. The number of allowances representing the difference between this upper budget and the cap set at forecasted 2012 emissions should be placed into the allowance reserve.
- Allowance value allocated to the Consumer Rebate Program should not be drawn from the pool of allowances allocated to the electricity sector.

Price collar and allowance reserve

- A price collar and an allowance reserve are key cost containment mechanisms. If the bids presented at an auction result in a clearing price lower than the price floor, the number of allowances to be sold at that auction should be reduced until the clearing price increases to the price floor. The unsold allowances should be transferred to the allowance reserve.

If the bids presented at an auction result in a clearing price higher than the price ceiling, allowances from the allowance reserve should be added to the pool of allowances to be sold at that auction until the clearing price drops to the price ceiling.

- Subject to certain restrictions, compliance entities should also be able to purchase allowances from the reserve at the ceiling price.
- If the allowance reserve becomes depleted to a pre-determined level, the percentage of offsets that compliance entities can use for compliance should be increased. This will contain costs and reduce the demand for allowances from the allowance reserve.
- If the allowance reserve is depleted and offsets are not available, the ARB should borrow allowances from future years and auction them. Borrowed allowances should be replaced with offsets when the offset market becomes liquid again.

Preventing leakage: two-way border adjustment

- To address the competitive disadvantage faced by exporters of power generated in California, exporters should receive an annual rebate to compensate them for the cost of compliance instruments associated with the exported power.
- Rebates (in the form of allowances or allowance value) should be calculated using a default emissions factor based on marginal generation. If the exported power is from a specified source with emissions lower than the default factor, the actual emissions should be used instead.
- Rebates would not be payable if the point of sale or use of the power outside California is in a jurisdiction with a cap and trade program linked to California's cap and trade program.

II. WE RESERVE THE RIGHT TO COMMENT ON ALLOCATION AMONG UTILITIES.

Slide 33 of the ARB staff's May 17, 2010, PowerPoint presentation specifically called for comments on a topic that is of paramount importance to SCPPA: the methodology that should be used to allocate allowances among retail providers in the electric sector. Slide 33 proposes that allowances be administratively allocated to the electric sector, and that those allowances be monetized through a double-sided auction to ensure that the administrative allocation of allowances to retail providers would not discriminate between utility-owned and merchant-owned power generation. However, on the important question of how the administratively allocated allowances should be allocated among electric sector retail providers, slide 33 states: "Need stakeholder input."

SCPPA does not believe that it would be constructive for retail providers to comment at this time on the allocation of allowances among the retail providers. SCPPA is currently engaged in active discussions with other electric sector stakeholders about the allocation issue. SCPPA strongly believes that a good faith consensual resolution of the issue would be in the best interests of California electricity consumers and would facilitate the ARB's implementation of AB 32. Accordingly, although SCPPA has strong views on the allocation issue, SCPPA withholds comment at this time to avoid any possible interference with or disruption of the ongoing stakeholder discussions.

Insofar as SCPPA is desisting from comment at this time, SCPPA reserves the right to respond fully to the slide 33 request for "stakeholder input" if the effort to reach a consensual recommendation fails to reach fruition.

III. ALLOCATION OF ALLOWANCE VALUE TO ELECTRICITY SECTOR.

A. Allocation of allowance value to the electricity sector should be in the first tier of allowance value uses.

Slide 24 of the ARB PowerPoint first sets out the ARB staff's proposed Allowance Value Flow Diagram, which divides uses of allowance value into "first tier" or senior uses and "second tier" or subordinate uses of allowance value. The senior uses of allowance value are Industry Transition and Leakage Prevention and a Price Mitigation Allowance Reserve. The allowance reserve should not be listed in this slide at all, as it should not be filled with allowances taken from the cap – see section IV.A below.

The subordinate uses of allowance value listed on the slide include targeted public investment for renewable power, implying that the allocation of allowances or allowance value to the LDCs for the benefit of their consumers should be seen as a subordinate, second tier, use. Instead, the allocation to the electricity sector should fall into the first tier of uses rather than the second tier. Allocating allowances or allowance value to the LDCs would fulfill the first-tier objectives of containing program costs (by reducing the costs passed through to electricity consumers) and preventing leakage (by reducing the costs to electricity-intensive Californian companies).

The electricity sector will bear a disproportionate responsibility for meeting California's emission reduction goal. The consumers served by LDCs face the potential double burden of the cost of buying allowances under the cap and trade program and the cost of complying with complementary measures. These burdens have the potential to result in publicly unacceptable increases to electricity rates unless allowance value is allocated to the electricity sector to offset some part of the double burden. An administrative allocation of allowances to the electricity sector is important for the acceptability and success of the cap and trade program.

The ARB can be confident that all allowance value allocated to the LDCs will be used to benefit consumers rather than company shareholders, due to the pervasive regulation of the electricity sector.

For these reasons, allocation of allowance value to the electricity sector should be a first tier use of allowance value and should not be relegated to the second tier.

B. LDCs should be allocated allowance value on the basis of historical electricity sector emissions.

The level of allowance value allocated to LDCs should be set on the basis of an annual average of historical electric sector emissions. The historical period should include years in which there were both high hydropower production and low hydropower production, for example, 2004-2006. Averaging emissions across more than one base year is important as annual emissions from the electricity sector may vary considerably. Weather conditions affect both the emissions profile of power (with wet/ snowy years leading to greater hydropower production and lower emissions) and the demand for power (with hot years leading to greater demand for power).

The base period should end before AB 32 became effective in 2007 to reward early emission reduction activities taking place after the effective date of AB 32 and before the start of emissions trading. If the base period does not end before AB 32 became effective, at the latest it should end prior to the date on which the base period is announced to avoid a perverse incentive to increase base period emissions. Such an incentive could arise if, for example, the ARB announced in 2010 that the base period would end on December 31, 2011.

C. Allocation starting point should be 100 percent of historical emissions.

In 2012, allowances or allowance value should be administratively allocated to LDCs in an amount equal to 100 percent of the average annual emissions from the electricity sector over the selected historical period.

The 100 percent allocation is required due to the double burden on the electricity sector, as discussed above, as well as the significant role the sector can play in providing public benefit emission reduction programs. A 100 percent allocation would also help to fulfill the ARB's goal to "avoid significant economic gain or loss solely due to allocation decisions" in the early years of the cap and trade program (slide 25 of the ARB PowerPoint). By addressing the double burden on the electricity sector, a 100 percent allocation would help to ensure a smooth start to the program without large impacts on consumer electricity bills.

A 100 percent allocation would also mitigate the pressure on electricity-intensive industries to relocate out-of-state due to increasing electricity bills in California. Relocating out-of-state and purchasing energy generated out-of-state would result in emissions leakage. Emissions in California would drop, but emissions elsewhere would increase. The ARB's proposed assistance to emissions-intensive trade-exposed industries does not address the type of leakage caused by increasing electricity costs to industry, but administratively allocating allowances to LDCs to reduce the burden of the AB 32 program on electricity customers would address the problem, at least in part.

D. Allocation to LDCs should change in specified ways over time.

The total allocation of allowance value to LDCs should continue into the future and decline over time in proportion to the decline in the emissions cap but not more. Given the importance of allocating allowance value to the electricity sector, and the fact that LDCs will use allowance value for public purposes, no greater rate of decline is justified.

If the use of electric vehicles rises substantially in the coming decades, the allocation of allowances to LDCs should increase to reflect the increased demand for electricity as a low-emissions transport fuel. Even if the electricity is from fossil fuel power stations, it is a lower-emission fuel than gasoline or diesel per mile travelled, given electricity's dramatically higher

energy efficiency. Increasing electricity generation for the purposes of electric vehicles significantly reduces net emissions.

A specific level of use of electric vehicles, for example the sale of a certain number of plug-in vehicles in California, should be set as the trigger for allocating additional allowance value to LDCs.

E. The purposes for which LDCs can use allowance value should not be restricted to renewable energy.

The ARB PowerPoint indicates that the allocation of allowance value to LDCs should be used to offset some of the 'above market' carbon price embodied in retail rates due to the Renewable Electricity Standard (slide 33).

While it is certainly true that supporting the costs of increased renewable energy is an important use of allowance value, it should not be the only permissible use of the allowance value allocated to LDCs. Under regulation, LDCs undertake many other activities that reduce emissions at costs higher than expected allowance costs.

Subject to oversight by the California Public Utilities Commission and local governing boards, LDC allowance value should be available to be used for the following priorities:

- Assisting low-income customers as necessary to supplement existing LDC programs;
- Investing in electricity sector measures to reduce emissions, including renewable resources, energy efficiency, and supporting investments such as transmission and grid expansion and enhancement;
- Funding electricity sector RD&D in emission reduction technologies and programs;
- Reducing the customer burden of transitioning to a low-carbon economy; and
- Funding conversion of coal-fired power plants to gas-fired power plants. This is an important and expensive emissions-reduction measure, and may be best served with a

separate pool of allowance value.

Again, the extensive regulation of LDCs ensures that allowance value will always be used for public purposes and will not constitute windfall profits.

F. LDCs should receive allowances, sell them at auction, and receive the proceeds.

SCPPA supports the ARB's proposal to allocate allowance value for the electricity sector to LDCs. As LDCs are regulated, allowance value will be used for public benefit. LDCs are an effective and proven delivery mechanism for investments in renewable energy sources, energy efficiency, and programs for assistance to low-income and other consumers while ensuring protection for all consumers through regulatory oversight, as noted in the Joint Utilities letter to Ms. Mary Nichols dated March 26, 2010.

As proposed in slide 33 of the ARB PowerPoint, inequity between independent energy producers and LDCs can be avoided by administratively allocating allowances to LDCs and then requiring the LDCs to sell the allowances through a double-sided auction. LDCs would be required to purchase all allowances they need for compliance at auction or on the secondary market.

Even though the LDCs would receive the proceeds from selling their allowances through the double-sided auction, the LDCs would be able to design their rates to ensure that allowance costs are reflected in customer bills to send a carbon price signal to consumers. This is consistent with the goal of establishing an economy-wide carbon price and embedding the carbon price in electricity rates (slide 32 of the ARB PowerPoint).

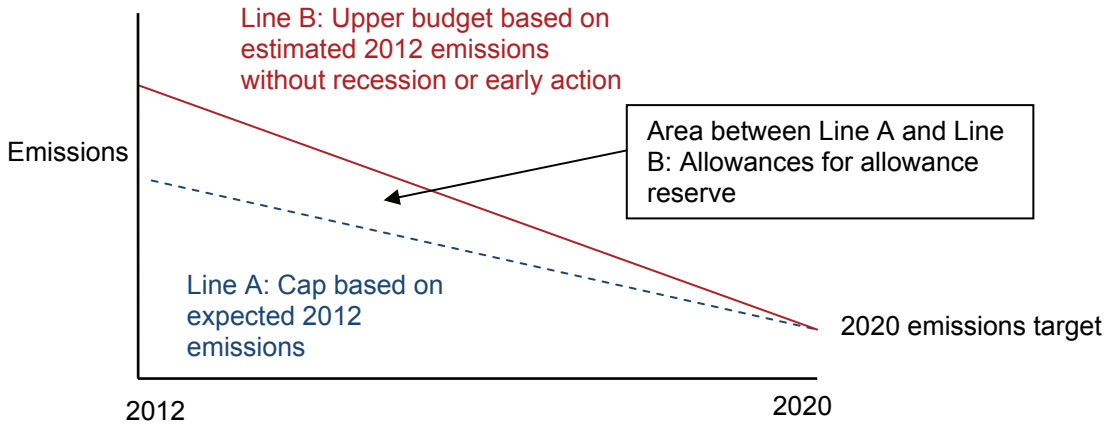
IV. ALLOCATION OF ALLOWANCE VALUE FOR OTHER PURPOSES.

A. Allowance reserve should not be filled from cap set at 2012 emission levels.

Slide 28 of the ARB PowerPoint proposes: "Small portion of overall allowances initially dedicated to a strategic reserve and forward auctioning." SCPPA strongly supports the

establishment of an allowance reserve, as further discussed in section IV below. However, the allowances allocated to this reserve should not be drawn from the emissions cap set at expected 2012 emissions. This would reduce the number of allowances available for immediate use and is likely to increase allowance prices rather than containing them. It only "mov[es] stringency from one year to another. This approach cannot protect against unexpectedly high costs over the long term."[2]

A different approach should be taken to filling the allowance reserve to ensure that creating the allowance reserve would not merely move stringency from one year to another. An upper allowance budget should be set at the level of emissions estimated for 2012 if the recent economic recession and early emission reductions had not occurred. This allowance budget should decline annually to reach the 2020 emissions target in proportion to the annual decline in the covered sector emissions cap. Each year, the number of allowances representing the difference between the allowance budget and the cap declining from expected 2012 emissions should be placed into the allowance reserve. This is represented graphically below (not to scale).



This approach has been discussed by environmental economists as follows:

[2] A. Morris, W.J. McKibbin, P.J. Wilcoxen, "Controlling costs while controlling emissions – a price collar approach to cap and trade", page 6, Brookings Institute, 2009, available at

> A fundamental issue is whether permits in the reserve fund should be pulled from inside or outside the cap. A conceptual reframing would be to think of two caps – a stringent, aspirational cap that is met if no reserve allowances need to be accessed, and a less stringent but acceptable cap that reflects the possibility that all reserve allowances could be necessary to meet the price containment objectives. ... [T]he reserve fund would comprise the difference between the two caps.[3]

This approach would provide more effective cost containment than the counterproductive approach proposed in slide 28. It appropriately recognizes the hardships of the economic recession and the valuable emission reduction activities that entities are voluntarily undertaking before the start of the cap and trade program. Lastly, it would provide a reasonably large supply of allowances to the reserve from the start of the cap and trade program, with annual supplements of decreasing size. To ensure that an allowance reserve is an effective cost-containment mechanism, the reserve must be of a reasonable size. The greater the number of allowances in the reserve, the "harder" the price ceiling becomes, more effectively containing the costs of the cap and trade program.[4]

B. Allowances for consumer rebate program should not reduce allocation to electricity sector.

The ARB PowerPoint lists a Consumer Rebate Program in the second tier of allowance value uses. Allowance value for the Consumer Rebate Program should not be drawn from the pool of allowances allocated to the electricity sector. As discussed above, the allocation to the electricity should decline in proportion to the reduction in the overall emissions cap and not faster.

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http://www.brookings.edu/~/media/Files/rc/opinions/2009/0724_carbon_morris_wilcoxen_mckibbin/price_collar_factsheet.pdf.

[3] P. Maniloff and B. Murray, "Allowance price containment options for cap-and-trade legislation", page 3, Nicholas Institute for Environmental Policy Solutions, Duke University, October 5, 2009.

[4] H. Fell, D. Burtraw, R. Morgenstern, K. Palmer, and L. Preonas, "Soft and hard price collars in a cap-and-trade system: A comparative analysis", Resources for the Future Discussion Paper, April 2010, available at http://www.rff.org/RFF/Documents/RFF-DP-10-27.pdf.

LDCs will ensure that any allowance value allocated to them will be used for public benefit. It would serve no purpose to redirect allowances from LDCs to the Consumer Rebate Program, as allowance value allocated to LDCs will itself reduce consumer burdens rather than benefiting shareholders. This is not the case with other sectors, such as the industrial or transport sectors. Allowance value for consumer rebates should be drawn from the pool of allowances for such sectors.

C. Allowance allocation methodology should provide smooth transition to federal cap and trade program.

It is likely that a federal program imposing a price on carbon will be established at some point in the coming decade. For all sectors receiving allocations of allowance value, the ARB's allocation methodology should be designed, as far as possible, to enable a smooth transition to a federal program. Transition will be smooth if investment decisions made by compliance entities under the California cap and trade program are aligned with compliance requirements under the federal program. A smooth transition to a federal program is essential to ensure that Californian businesses are not put at a competitive disadvantage compared to businesses in other jurisdictions.

V. PRICE COLLAR AND ALLOWANCE RESERVE SHOULD BE ESTABLISHED FOR COST CONTAINMENT.

Slide 28 of the ARB PowerPoint proposes using the allowance reserve to implement a form of price collar that would be triggered if allowance prices are higher or lower than anticipated. SCPPA strongly supports the use of a price collar and allowance reserve as key cost containment mechanisms.

A. Price collars and allowance reserves are effective cost containment measures.

Studies have shown that a price collar can significantly reduce program costs compared to a cap and trade program without a price collar.[5]

Furthermore, allowance prices may be moderated effectively with the release of a relatively small number of allowances from an allowance reserve. The economic analysis of AB 32 by Charles River Associates ("CRA") stated that:

> CRA and the ARB both find that even the 4% offsets significantly reduce costs of meeting an emissions target: lowers permit prices by between 33% (CRA) and 80% (ARB).[6]

A similar result can be expected from the release of allowances from an allowance reserve, as the mechanism is the same: the supply of compliance instruments is increased.

B. Use the allowance reserve to maintain the price collar by adjusting the number of allowances for auction.

SCPPA supports the type of allowance auction used by the Regional Greenhouse Gas Initiative and proposed by the Economic and Allocation Advisory Committee: a single-round, sealed-bid, uniform price auction. This type of auction is simple to operate and difficult to manipulate. It would be relatively straightforward to use an allowance reserve to moderate auction clearing prices with such an auction format.

If the bids presented at an auction result in a clearing price lower than the price floor, the number of allowances to be sold at that auction should be reduced until the clearing price increases to the price floor. The unsold allowances should be transferred to the allowance reserve, supplementing the allowances placed in the reserve due to the difference between the

[5] See for example H. Fell and R.D. Morgenstern, "Alternative approaches to cost containment in a cap-and-trade system", Resources for the Future Discussion Paper, April 2009, available at http://www.rff.org/rff/documents/rff-dp-09-14.pdf.

[6] Charles River Associates, "Analysis of the California ARB's Scoping Plan and Related Policy Insights", at 3. March 24, 2010.

emissions level in the absence of the recession and early action and the expected 2012 emissions level (discussed above).

If the bids presented at an auction result in a clearing price higher than the price ceiling, allowances from the allowance reserve should be added to the pool of allowances to be sold at that auction until the clearing price drops to the price ceiling.

C. Sell reserved allowances to compliance entities at the price ceiling.

In addition to using the allowance reserve to ensure auction clearing prices do not exceed the price ceiling, compliance entities should be able to purchase allowances from the reserve at the ceiling price (without going through the auction process). This would provide a valuable additional compliance option with price certainty. This mechanism is proposed in the recently-released Kerry-Lieberman American Power Act (section 726).

To ensure that allowances are available to the entities that need them, entities without compliance obligations should not be able to purchase allowances from the allowance reserve. The American Power Act only allows covered entities to purchase cost containment reserve allowances (section 726(b)(4)).

If desired, various additional restrictions can be applied to the sale of allowances from the allowance reserve. For example:

- Purchases could be made only in the months after the end of a compliance period and before the allowance retirement deadline for that compliance period (see for example the similar restriction in American Power Act section 726(b)(2)).
- Once purchased, reserved allowances must be retired for compliance immediately and cannot be transferred (see American Power Act section 726(d)).

- Reserved allowances can constitute only a small percentage of a compliance entity's total allowances used for compliance in each compliance period. The American Power Act proposes a 15 percent limit (section 726(b)(5)).

D. If allowance reserve is depleted, allow greater use of offsets.

Slide 28 of the ARB PowerPoint proposes that: "Reserve potentially supplemented through increased use of offsets (if needed)." SCPPA strongly supports this approach. Without such a mechanism, the allowance reserve may become depleted to the extent to which it no longer operates as a cost-containment mechanism.

If the allowance reserve is depleted to a pre-determined level, for example if only 30 percent of the number of allowances in the allowance reserve at the start of the cap and trade program remain, the supply of compliance instruments should be increased by permanently increasing the percentage of offsets that compliance entities can use for compliance. A permanent increase (even if the increase is only small) is required because a significant depletion of the allowance reserve would indicate a systemic imbalance in the allowance market.

Increasing the percentage limit on the use of offsets by compliance entities would contain costs and reduce the demand for allowances from the allowance reserve without affecting the emissions cap. Studies show that allowing increased use of offsets is a very effective way to control the costs of a cap and trade program.[7]

If greater use of offsets is effective in reducing allowance prices, the price floor will prevent the price of allowances at auction (which will remain the most important source of compliance instruments) from dropping too low.

[7] See for example the Charles River Associates report dated March 24, 2010 "Analysis of the California ARB's Scoping Plan and Related Policy Insights, at 2: "If offsets expand to about 15% levels, costs decline by over 40% from programs at the 4% offset level."

E. ARB can borrow allowances from future years if offsets are not available.

It is possible that the allowance reserve may become depleted without appropriately-priced offsets being immediately available in sufficient quantities to contain allowance prices. (This is less likely to occur if the ARB allows the use of offsets from the world's largest offset trading program, the Clean Development Mechanism under the Kyoto Protocol.)

In these circumstances only, a further cost containment mechanism should be employed: the ARB could borrow allowances from the tranches of allowances to be issued in future years and sell them at auction.

To avoid merely moving stringency from one year of the cap and trade program to a later one, the borrowed allowances should be replaced with offsets, which the ARB could purchase when the offset market becomes liquid again. The ARB can then auction these offsets (which should not count towards a compliance entity's 4 percent offset limit) as compliance instruments for the year from which it borrowed allowances.

VI. TWO-WAY BORDER ADJUSTMENT NEEDED TO PREVENT LEAKAGE IN ELECTRICITY SECTOR.

SCPPA supports ARB's efforts to address emissions leakage, which negatively affects California's economy and erodes the environmental integrity of the cap and trade program. Slide 65 of the ARB PowerPoint discusses the first jurisdictional deliverer ("FJD") approach as a form of border adjustment to prevent leakage in the electricity sector. While the FJD approach addresses the competitive advantage of *importers* of power into California, an additional mechanism is needed to address the competitive disadvantage faced by *exporters* of power generated in California.

A. Exporters of California power will be at a competitive disadvantage under a cap and trade program.

The proposed cap and trade regulation requires California power generators to acquire compliance instruments to cover their greenhouse gas emissions, whether that power is consumed within California or exported. If the exporter is not the generator, the exporter will nonetheless be liable for the costs of compliance instruments as the generator will incorporate the cost of allowances in the price at which it sells power to the exporter. To remain whole, the exporter would need to pass the cost of compliance instruments through to the out-of-state buyer, putting California exporters at a competitive disadvantage compared to out-of-state generators that serve load in jurisdictions where there is no cap and trade program.

Nearly all of the power exported by SCPPA member utilities is under exchange agreements. Energy exchanges benefit electricity consumers and society as a whole by reducing the cost of electricity through the efficient use of generating resources, and reducing emissions by maximizing the use of hydroelectric generating resources in the Pacific Northwest. However, the additional cost on both imports and exports to comply with California's proposed cap and trade program could negate the cost savings associated with energy exchanges and discourage California retail providers from participating in energy exchanges with out-of-state counterparties. Discouraging energy exchanges that benefit electricity consumers and society as a whole would be poor public policy.

Furthermore, emissions leakage may occur as power that was formerly generated within California becomes uncompetitive and is replaced with power generated outside California.

B. Rebates to electricity exporters can address the leakage issue.

Exporters of power from California should receive an annual rebate, in the form of allowances or allowance value, to compensate them for the cost of compliance instruments for the emissions associated with the exported power. This would neutralize the impact of the cap

and trade program on the price of exported power and would return exporters to their pre-cap and trade competitive position. The aim is to help protect California's economic interests, avoid disadvantaging energy exchanges with out-of-state counterparties, and prevent leakage.

Rebates should be calculated by multiplying the megawatt hours of electricity exported by each exporter (as reported under the Mandatory Reporting Regulation) by an emissions factor. If the power is from a specified generating resource, the emissions factor should be the lower of:

(a) the actual emissions per megawatt hour from the generating resource; and

(b) a standard emissions factor based on marginal generation, similar to or the same as the current default factor for unspecified power of 1,100 pounds of carbon dioxide per megawatt hour.

If the power is from unspecified sources, the standard emissions factor should be used.

If the rebates are delivered in the form of cash rather than allowances, the amount of cash can be determined by multiplying the previous result by the clearing price of allowances at the most recent auction.

The rebate for a particular year should be paid prior to the allowance retirement deadline for the compliance period covering that year.

The FJD approach would remain in place for electricity imports. Together, the exporter rebates and the FJD emissions liability will form an efficient two-way border adjustment mechanism.

C. Rebates would not apply to power exported to a jurisdiction with a cap and trade program linked to California's.

Rebates would not be provided if the jurisdiction in which the ownership of the exported power changes or the power is used (whichever occurs first) has a cap and trade program linked to California's cap and trade program. In this case a rebate is not necessary because generators in

the jurisdiction in which the exported power is sold or used face carbon costs similar to the costs applying to power generated in California.

If power is exported and then imported back into California, the rebate for the exported power should equal the FJD emissions liability, such that the cost and the rebate should cancel each other out.

VII. CONCLUSION

SCPPA urges the ARB staff to consider these comments in developing the next version of the cap and trade regulation. SCPPA appreciates the opportunity to submit these comments.

Respectfully submitted,

/s/ Norman A. Pedersen

Norman A. Pedersen, Esq.
HANNA AND MORTON LLP
444 South Flower Street, Suite 1500
Los Angeles, California 90071-2916
Telephone: (213) 430-2510
Facsimile: (213) 623-3379
E-mail: *npedersen@hanmor.com*
lmitchell@hanmor.com

Attorney for the **SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**

Dated: June 7, 2010