

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

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMMENT ON
SEPTEMBER 9, 2009 WORKSHOP TOPIC:
COMBINED HEAT AND POWER (CHP) AND CAP-AND-TRADE**

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The Southern California Public Power Authority (“SCPPA”)¹ respectfully submits this comment on the topic of the Air Resources Board (“ARB”) staff’s September 9, 2009 workshop topic, combined heat and power (“CHP”) and cap-and-trade.

I. ALLOCATION OF ALLOWANCES TO CHP.

Among other issues, the staff presentation for the workshop raised a question about whether there should be free allowances to a CHP project operator to the extent to which the CHP project uses fossil fuel for the purpose of generating electricity. Staff Presentation, slide 14. If a CHP project generates electricity that is delivered to the grid for wholesale sales to purchasers, there should be no free allowances to the CHP project operator to cover associated emissions. The CHP project would be operating as a merchant generator. Neither the California Public Utilities Commission (“CPUC”) nor any other regulatory authority would have authority over the disposition of the proceeds received by the CHP operator from wholesale sales to the grid. As a result, the CHP operator would be positioned to realize windfall profits just like any other unregulated merchant generator. Thus, SCPPA recommends that the ARB give no further consideration to administratively allocating allowances to CHP to cover emissions associated with generating electricity for delivery to the grid.

Instead of generating electricity for delivery to the grid, the CHP project could generate electricity for delivery on-site to the host of the CHP project. Just as there should be no

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.

administrative allocation of allowances to a CHP operator to cover emissions associated with electricity sales into the grid, there should not be any administrative allocation of allowances to the CHP operator that delivers electricity on-site to the host. First, there is the same potential for realization of windfall profits as there would be in the case of CHP wholesale sales into the grid insofar as the CHP operator's use of the proceeds would not be regulated. Second, the CHP operator does not have the same obligations as a retail provider that might warrant an administrative allocation of allowances.

There has been no suggestion by staff or any parties at the workshop that there should be any administrative allocation of allowances to a CHP operator to cover emissions associated with consumption of fossil fuel at a CHP facility for thermal purposes for the benefit of a CHP host. Insofar as there should be no administrative allocation to the generation-related emissions and no administrative allocation to a thermal-related emissions at a CHP facility, SCPPA concludes there should be no administrative allocation to CHP facilities unless the facilities are operated by retail providers so that the disposition of revenues would be subject to pervasive regulation and there would be assurance against realization of windfall profits.

II. INCENTIVES FOR CHP.

Expanded use of CHP is one of the complementary measures that is recognized in the Scoping Plan, *See* Scoping Plan at 17. The staff asked: "What additional option should staff consider to incentivize use of CHP by capped facilities?" Staff Presentation, slide 23. SCPPA is unsure about what the staff means by "additional options" for "incentivizing" the use of CHP. The administrative allocation of allowances should *not* be considered to be an option for incentivizing the use of CHP by capped facilities. SCPPA supports the use of CHP as a measure that results in concrete emission reductions to the extent to which CHP is economically practicable. The provision of incentives should be considered in the course of developing the

ARB's CHP complementary measure and should not be pursued through any administrative allocation of allowances.

III. CONCLUSION.

SCPPA urges the staff to consider these views as the staff prepares its preliminary draft proposed cap-and-trade regulation. SCPPA appreciates this opportunity to submit comments.

Respectfully submitted,

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