



Air Resources Board



Matthew Rodriguez
Secretary for
Environmental Protection

Mary D. Nichols, Chairman
1001 I Street • P.O. Box 2815
Sacramento, California 95812 • www.arb.ca.gov

Edmund G. Brown Jr.
Governor

August 24, 2012

Honorable Nathan Fletcher
California State Assembly
State Capitol, PO Box 94249
Sacramento, California 94249-0075

Dear Assemblyman Fletcher:

Thank you for your August 10, 2012 letter. I appreciate the opportunity to provide you with an update regarding ARB's plans for covering operators of combined heat and power (CHP) facilities and California universities under the cap and trade program.

California has a long history of supporting CHP. ARB's Scoping Plan for AB 32 calls for increasing the state's use of CHP as a way to cost-effectively meet our greenhouse gas goals and Governor Brown has established a goal of 6500 MW of additional CHP in California by 2030. Public and private entities that have taken steps to build or purchase combined heat and power facilities should be rewarded for their actions, not penalized

Under the cap and trade program, virtually all CHP facilities will be rewarded for the investments they have already made in CHP because they will face a lower compliance cost than those entities that have not made these investments. The cap and trade program will also incentivize additional future investment in CHP.

However, there are a limited number of entities covered by the program that would otherwise not be covered at the outset "but for" their investment in CHP. To ensure a smooth transition into the program, and so that these entities are not disadvantaged, ARB plans to exempt the steam or waste heat emissions for all "but for" CHP facilities based on a benchmark until 2015 when both electricity and natural gas will be covered by the program. During this time allowances from the exempted emissions would be retired to maintain the integrity of the overall cap.

Additionally, as you note California's universities have been leaders in taking proactive steps to reduce greenhouse gas emissions. To ensure a smooth transition into the program, we are committed to providing transition assistance to universities as we have done in the industrial sector.

The energy challenge facing California is real. Every Californian needs to take immediate action to reduce energy consumption. For a list of simple ways you can reduce demand and cut your energy costs, see our website: <http://www.arb.ca.gov>.

California Environmental Protection Agency

We will continue working both with individual CHP facilities and the universities to ensure that they are provided necessary transitional assistance as we start the program. ARB plans to initiate a formal rulemaking on these issues in 2013, well in advance of the first requirement for any entity covered by the program to surrender allowances. We will also continue to work closely with our energy agency partners in the administrative process currently underway to ensure that our effort to incentivize CHP is effectively carried out consistent with state energy goals.

I appreciate your attention to this important issue.

Sincerely,

A handwritten signature in blue ink, appearing to read "Mary D. Nichols". The signature is fluid and cursive, written over a light blue horizontal line.

Mary D. Nichols
Chairman