



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: Voluntary Early Action Design
DATE: March 31, 2009

Introduction

Modesto Irrigation District (“MID”), Redding Electric Utility (“REU”), and Turlock Irrigation District (“TID”), collectively the “Utilities,” appreciate the opportunity to propose a program design to ensure that voluntary early actions by capped and uncapped entities are encouraged and given appropriate credit when the cap and trade program begins in 2012. Full recognition of emission reduction activities undertaken voluntarily before the first compliance period is a necessary step toward reaching California’s 2020 goals. It is often stated that the earlier reductions are achieved, the more we will see clean air benefits and co-benefits accumulated in the long run. It is also often stated that uncertainties about the design of the State’s emission reduction program and how early actions will be quantified and credited prevent investors from undertaking such valuable programs.

The Utilities suggest that actions resulting in “real, permanent, quantifiable, verifiable, enforceable and additional” emission reductions should be awarded Early Action Credits separate from but equivalent to program offsets and allowances. These Credits should not be taken out of the cap in any form of set-aside.

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 42,000 customers with a peak load of 247 MW. The Utilities maintain similar resource mixes, including hydro electric, 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. MID, REU and TID 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.

Proposed Approach to Recognizing Early Reduction Actions

Voluntary early actions that result in "real, permanent, quantifiable, verifiable, enforceable and additional" emission reductions should be recognized through the issuance of Early Action Credits. While more work will have to be done to fully define each element of such criteria, the Utilities propose that entities, both within capped and uncapped sectors, that have developed early action reductions from 2007 (the point AB 32 became effective) through 2011 (until the first compliance period begins) should be awarded Early Action Credits. Such Credits will have the same value as Allowances and can be surrendered to meet compliance obligations in place of Allowances during the first (2012-2014) compliance period. These Early Action Credits would be administered by the designated agency in a manner similar to Offsets, but would be separate and distinct from Offsets which could be awarded to uncapped entities that achieve qualified emission reductions during compliance periods.

Below is a simple question answer format to outline the Utilities proposal:

Who would be eligible to receive Early Action Credits? All entities who achieve real, permanent, quantifiable, verifiable, enforceable and additional emission reductions during the period 2007 through 2011 would be eligible to receive Early Action Credits.

What programs qualify? Before specific programs can be identified to qualify for Early Action Credits, the criteria for qualification (real, permanent, quantifiable, verifiable, enforceable and additional) must be defined. Qualified programs would not be tied to protocols developed for Offsets. A small multi-sector working group would need to be organized to recommend guidelines to CARB for incorporation of Early Action Credits into applicable regulations. At a minimum, early achievements ahead of the state adopted renewable portfolio standard of 20% by 2010 and energy efficiency goals should be considered. All early actions would have to be verified by CARB or its designee and all Early Action Credits would be certified.

How will emission reductions be measured? Each Early Action Credit will carry the same value as an Allowance and, if provided, an Offset. For example, if an Allowance represents 1 ton of carbon dioxide equivalent, an Early Action Credit would be awarded for 1 ton of carbon dioxide equivalent reduction achieved through the qualified early action program and verified through established procedures.

How many "credits" will be available? The Utilities do not advocate setting a limit on the number of Early Action Credits. Sufficient supply of Credits will ensure that more voluntary early actions are undertaken. A sufficient supply of Credits will also help keep the cost of AB 32 compliance manageable. If protections were needed to maintain the integrity of the overall cap

program, a limit could be placed on the ratio of Credits to Allowances surrendered by any entity. Early Action Credits should not be considered as a “set-aside” from the Allowance cap.

How would Early Action Credits be Valued? During each AB 32 compliance period, capped entities can surrender one Early Action Credit in place of an Allowance to be counted toward their compliance obligation. The monetary value of the Credit will be tied to the cost of Allowances.

How would Early Action Credits be distinguished from Offsets? Offsets are awarded only to uncapped sectors for projects meeting specific protocol guidelines. Offsets, once obtained, would have the same use as Early Action Credits – to ensure logistical capability of capped entities to meet their AB 32 obligations. The Utilities envision a 1 to 1 ratio of Credit to Offset value.

How will Early Action Credits be marketed? A secondary market for Early Action Credits would develop in parallel with the Offset market. Similar market rules could be applied.

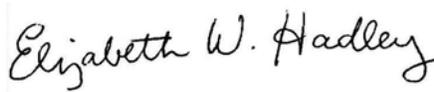
Conclusion

The Utilities appreciate the opportunity to put forth the above proposal 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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