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Via Email to ccworkshops@arb.ca.gov

Ms. Mihoyo Fuji
Office of Climate Change
California Air Resources Board
1001 I Street
Sacramento, CA 95812

Re: Southern California Public Power Authority Comment on Emissions Leakage Issues in a California Cap-and-Trade Program

Dear Ms. Fuji:

The Southern California Public Power Authority ("SCPPA")[1] appreciates this opportunity to comment on the emissions leakage issues that were discussed at the April 13, 2009 workshop. SCPPA compliments you and the Air Resources Board ("ARB") staff on the presentation at the workshop and on the Concept Paper that was released in advance of the workshop.

The focus of the workshop was on developing a methodology for identifying and assessing the potential for leakage of emissions from California industries that are both emissions-intensive and "trade-exposed." Concept Paper at 1. The ARB staff proposed a two-step process to assess the risk of emissions leakage from these industries. First, the staff would assess the increase in production costs at emission-intensive industries that might result from implementing Assembly Bill ("AB") 32 emission reduction measures or, alternatively, from buying greenhouse gas ("GHG") emission allowances. Concept Paper at 1. Second, the ARB staff would assess the ability of the emissions-intensive industries to pass AB 32 compliance costs on to customers. *Ibid*. Those industries that would have a limited ability to pass on compliance costs because their competitors are not subject to GHG emission reduction programs would be considered to be "trade-exposed." Concept Paper at 1-2.

[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.

To the extent that emissions-intensive industries would experience compliance costs that they are unable to pass on to customers, the industries may lose market share as a consequence of implementing AB 32. Production and new investment in those industries may shift from California to jurisdictions that do not have GHG emission control programs. Concept Paper at 2. The staff identified the following industries as being potential candidates for production and investment to shift to other jurisdictions if the industries were required to bear AB 32 compliance costs:

- Cement and other minerals
- Chemicals (basic and other)
- Food processing
- Glass
- Metal processing
- Oil and gas extraction/transmission
- Paper
- Petroleum Refining.

Staff Presentation, Slide 13.

As discussed below, SCPPA urges the staff to expand their analysis off leakage to include the leakage that may result if production in *electricity-intensive* industries shifts to other jurisdictons as a result of AB 32 implementation within the electricity sector. Also, SCPPA urges the staff to integrate into their analysis the need for crafting an AB 32 program that contains AB 32 compliance costs so as to mitigate leakage in both emissions-intensive industries and electricity-intensive industries.

Increased Electricity Prices that Are Caused by Implementing AB 32 May Result in Leakage as a Result of the Production in Electricity-Intensive "Trade-Exposed" Industries Shifting to Other Jurisdictions.

While the increased costs for emissions-intensive industries could result in leakage if the industries are unable to pass their AB 32 compliance costs on to consumers, leakage could also occur as a result of increasing the cost of electricity to electricity-intensive industries that are "trade-exposed."

The cost of complying with AB 32 is going to be high for the electric sector. The cost will be particularly high for the SCPPA members. Due to historical and geographic reasons, the SCPPA members have relied heavily upon fossil-fueled electricity generation resources, particularly, coal-fired resources, that have higher GHG emissions than other generation resources.

The SCPPA members are fully committed to achieving dramatic reductions in their GHG emissions. For example, the SCPPA members are adopting very aggressive renewable portfolio standards ("RPS"). Pasadena has adopted a 40 percent RPS. The Los Angeles Department of

Water and Power ("LADWP") has adopted a 35 percent RPS. Other SCPPA members such as Riverside and Burbank have adopted a 33 percent RPS. The SCPPA members are also pursuing energy efficiency aggressively.

These GHG reduction efforts of the SCPPA members are going to be costly, and the cost will be passed on to electricity consumers. Burbank estimates that the cost of adopting its 33 percent RPS and other measures to reduce its GHG emissions will raise its rates by roughly 30 percent *before* any cost is incurred to buy GHG emission allowances through a cap-and-trade program. If Burbank and the other SCPPA members are required to buy cap-and-trade allowances in addition to undertaking their aggressive direct emission reduction measures, their electricity prices will rise even more than the estimated 30 percent.

In considering the potential for leakage to occur as a result of implementing AB 32, the ARB staff should evaluate the extent to which electricity prices will be increased and the extent to which that increased cost of electricity will cause production and new investment at electricity-intensive California industries to migrate to other jurisdictions. The loss of electricity-intensive industrial production and investment to other jurisdictions would result in emissions leakage from California to those other jurisdictions just as surely as the shift in production from emissions-intensive industries such as cement to other jurisdictions would result in emissions leakage. Thus, SCPPA recommends that the scope of the ARB's evaluation of emissions leakage be expanded to include the impact of electric sector compliance with AB 32 on production and investment in electricity-intensive California industries.

The ARB Should Design an AB 32 Program that Contains Compliance Costs to Mitigate the Potential for Emissions Leakage to Other Jurisdictions.

SCPPA applauds the staff's effort to quantify the potential for leakage as a result of AB 32 measures causing industrial production and investment to shift to other jurisdictions. SCPPA is concerned, however, that there was at least an appearance at the April 13, 2009 workshop that the staff was interested in quantifying the potential for leakage so as to be able to craft measures to constrain emissions leakage in some way other than by constraining the cost of AB 32 compliance.

The cause of industrial emissions leakage would be the increase in the cost of industrial production that would result from implementing AB 32. Accordingly, the staff's evaluation of the potential for emissions leakage should be coupled with a staff focus on containing the cost of the AB 32 program to reduce the impetus for industrial production and investment to shift away from California.

For example, given that the cap-and-trade program is the primary tool that is proposed in the ARB's December, 2009 Scoping Plan to reduce emissions at large industrial sources, the Commission should consider unlimited use of offsets that meet the AB 32 criteria of being "real, permanent, quantifiable, verifiable, enforceable, and additional. Health & Safety Code §38562(d) (1) and (2). Unlimited use of offsets that meet the AB 32 criteria could result in actual emission reductions while simultaneously constraining the impact of the cap-and-trade program on the cost of production in California emission-intensive and electricity-intensive industries, thereby constraining leakage of emissions and new investment to non-capped jurisdictions, consistent with AB 32.

SCPPA appreciates this opportunity to submit these comments and looks forward to participating further in the ARB staff's assessment of leakage and the development of methods, primarily, cost containment, to minimize leakage that might result from industrial production shifting to other jurisdictions.

Respectfully submitted,

/s/ Norman A. Pedersen

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