



Michael J. Murray
Regional Vice President
State Governmental Affairs

925 L Street, Suite 650
Sacramento, CA 95814

(916) 492-4245
mmurray@sempra.com

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Kevin Kennedy
Office of Climate Change
Air Resources Board
10001 I Street
Sacramento, CA 95812

RE: Sempra Energy Comments Regarding Leakage: April 13, 2009 Workshop

Dear Mr. Kennedy:

Sempra Energy submits these comments concerning the topics discussed and staff's discussion questions at the workshop concerning leakage, held April 13, 2009. The workshop dealt with identifying potential leakage problems rather than the appropriate responses that might be incorporated in cap-and-trade design. We understand that the latter topic will be taken up by staff in subsequent development of the program. However, since there was considerable discussion of this aspect at the workshop, Sempra Energy will preliminarily note here that a broad geographic market, national or the WCI, is the best way of eliminating leakage issues. Therefore, the primary focus should be on expanding the geographic scope of GHG regulation.

AB 32 and the Governor's greenhouse gas (GHG) Executive Orders express the intention of leading the rest of the country towards similar regulation of GHG emissions. The appropriate way to address leakage issues is the policy California initially embraced – to lead the rest of the country as well as the western region of the United States to enact similar regulations. In the absence of similar regulation elsewhere, we now find ourselves considering regulatory mechanisms that could serve to distort price signals and create new cross-subsidies between industry sectors to prevent "leakage." We support calls by the Governor, Legislature, and CARB for Federal GHG regulation for these and other reasons, and invite all other stakeholders to join us in this effort.

The balance of this letter will provide our comments in response to the discussion topics at the workshop. These questions concern relative costs and competition in different industries. We respond to these questions as posed but note that to us a "level playing field" means all emissions within any sector, regardless of source, are treated the same and means that no sector should escape its proportionate share to reduce its GHG emissions.

- **What criteria should be used to define exposed sectors?**

The best approach is to ensure that GHG regulation is sufficiently broad as to eliminate any need to identify "exposed sectors." In the absence of such regulation, Sempra Energy agrees that the best measures to assess leakage are potential cost increases and competition from unregulated sources.

"Energy intensive industries," defined as a percent of costs that are energy-related (fossil fuels/electricity), could be considered at risk for leakage.

The second criteria concerning exposure to competition could be measured by import and export price elasticities, existing trade shares, and/or transportation costs. A good first screen would be identifying trade shares in excess of a certain percent. (The EU uses exports plus imports divided

by production plus imports quantitatively, and more detailed market competition indicators qualitatively). Assessment of potential competition based on transport costs and market concentration could also be included in the evaluation.

- **What data should be used to assess potential risk of cost increases through trade exposure?**

As a first step, the EDRAM and BEAR models explicitly have energy intensity and import and export elasticities for broad sectors that could be used in a first broad cut.

Thank you for the opportunity to comment.

Yours sincerely,

A handwritten signature in black ink, appearing to read "S. Wade", written in a cursive style.

c: Mr. Sam Wade