Comments to the California Air Resources Board (CARB)
of the Independent Energy Producers Association
On
Cap Setting and Data Review:
Introductory Discussion
Public Workshop Convened April 28, 2009

The Independent Energy Producers Association ("IEP") is pleased to offer these comments on the California Air Resources Board (CARB) "Cap Setting and Data Review: Introductory Workshop" convened on April 28, 2009. IEP represents over 20,000 MWs of independently owned generation resources in the west, particularly California and Nevada. IEP is active in the joint CPUC/CEC efforts to implement AB32 as well as at CARB.

I. General Comments

The CARB workshop on "Cap Setting and Data Review" addressed primarily how the emissions cap will be determined for a California cap-and-trade program. In response to the materials presented at the workshop, IEP's concerns, as expressed more fully below, pertain primarily to the following issues: (1) The current recession must be taken into account when setting the starting point for the cap; (2) To calculate the cap properly, a "recession adder" should be used (3) general questions for clarity.

II. Specific Comments Regarding Cap Setting and Data Review.

1. **The Current Recession Must be Taken into Account When Setting the Starting Point for the Cap:** Currently CARB and stakeholders are working collaboratively to determine (a) at what level to set the initial emissions cap for 2012 and (b) at what rate the cap will decline over time (2012-2020) to achieve the 2020 emission reduction goals. Among the many factors to be considered, which include population growth, economic growth, and expected voluntary and mandatory emission reductions, CARB should also address how the current recession will affect the initial "starting point" for the declining cap. The current recession has caused an estimated 18 percent reduction in electrical demand compared to what would have occurred absent the severe recession. Were the initial cap set at an emissions level based on the economic activity reported for any period during the current recession, CARB would be setting a cap that would be based on an anomalous level of economic activity and, more importantly, at a level that would not reflect the level of economic activity expected to re-emerge in the 2012-2015 timeframe (according to many economists). Accordingly, it is important that the

initial cap, set for the initial years of the program (i.e. 2012-2015) be based on a level that recognizes and accounts for the planned resurgence in economic activity rather than on the relatively low level of economic activity that the state experiences today. Otherwise, the implementation of the C&T program may act as an unwarranted and unnecessary break on California's ability to provide electric power to match a growing economy.

2. **When Setting the Initial Cap Level, A "Recession Adder" Should be Applied To Better Align the Initial Cap Level with the Expected Level of Economic Activity in 2012 Post-Recession.** IEP urges CARB to set the starting point of the cap and trade program to reflect a "non-recessionary" period of economic activity in order to properly align initial implementation (2012) with expected levels of economic activity. To accomplish this outcome, CARB should consider creating something akin to a "recession adder" that would be applied to CARB's "best estimate of expected actual emissions" for 2012.

   In using this methodology, CARB will account for the fact that in a more robust economy, relatively higher emitting units in the dispatch order are required to meet the larger electrical demand. Furthermore, CARB will create an initial "starting point" that reflects the economic activity expected to re-emerge in the 2012/2013 timeframe, thereby establishing the proper point to begin the trajectory downward beginning in 2012 so as to meet the 2020 GHG emission reduction goals without unnecessarily putting a drag on the economic recovery.

3. **General Questions for Clarity:** The presentation materials for this workshop noted that the ARB will establish straight line trajectories to 2020 for "both" scopes ("narrow" and "broad"); however, it is unclear in the presentation materials whether this meant that CARB will issue 2 different straight line trajectories to 2020 for each scope ("narrow" versus "broad") or if there will be simply one straight line trajectory that will be based on a combination of both scopes. IEP asks for clarity on this matter.

   In addition, it is unclear to IEP at this point whether or not there will be an immediate reduction necessary from the sectors that enter into the cap and trade program in 2015 (i.e. transportation fuel use, residential and commercial fuel use, etc.). It was noted at the workshop, that sectors that enter the cap in 2012 (i.e. the electricity sector) will not be responsible for immediate reductions in the first year of the program. Will this equally apply for sectors that enter the cap and trade program in 2015?

III. Conclusion. In deciding the potential trajectories and initial caps that will fundamentally create the cap and trade system, it is important that we reflect the return of a robust and stable economy to California in these projections. In essence, we must determine what the current effects of the recession are on a potential cap and trade program, what the prospective changes in emissions may be as California emerges from this recession, and then, plan accordingly.

IEP thanks CARB for the opportunity to submit these comments on Cap Setting and Data Review in the Cap & Trade program.

Respectfully submitted,

Amber Riesenhuber
Energy Analyst
Independent Energy Producers Association
1215 K Street, Suite 900
Sacramento, CA 95814
916-448-9499
amber@iepa.com

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