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June 12, 2009

Via Email to ccworkshops@arb.ca.gov

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

Re: Southern California Public Power Authority Comment on May 18, 2009 Workshop on the Use of Allowance Set-Asides in a Cap-and-Trade Program

Dear Ms. Orlando:

The Southern California Public Power Authority ("SCPPA")[1] appreciates this opportunity to comment on the issues discussed at the May 18, 2009 workshop on the use of allowance set-asides in a California cap-and-trade program. Thank you for the introductory PowerPoint presentation that you delivered at the workshop. Your presentation and the workshop as a whole facilitated a better understanding of the multiple and complex issues that would be raised by the use of allowance set-asides in a cap-and-trade program.

Although the May 18, 2009 workshop was helpful, it would be premature for the Air Resources Board ("ARB") to proceed too far in considering set-asides until the basic framework for allocating allowances becomes clear. The appropriateness of establishing a set-aside program depends, at least in part, on the methodology that the ARB decides to use for allocating allowances. If all allowances are to be auctioned, establishing a set-aside program could unjustifiably drive up the cost of the auctioned allowances to covered entities, particularly entities that are required to buy allowances while simultaneously being required to bear substantial costs of concrete greenhouse gas ("GHG") emission reduction measures. Conversely, if the double burden of being required to buy allowances while paying to reduce emissions were alleviated through an administrative allocation of allowances, some of the negative side effects of establishing a set-aside program might be mitigated. Thus, while it was

[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.

helpful for the staff to introduce the topic of set-asides, it would be appropriate for the staff to defer any further consideration of the issue until the staff, stakeholders, and the public at large have an opportunity to address fundamental issues about the structure of the California cap-and-trade program.

If, however, the staff believes it would be appropriate to continue to evaluate set-aside issues prior to addressing allowance allocation and other central features of the cap-and-trade program, the staff should, at least for now, reject the use of set-asides. The use of set-asides to achieve various public purpose objectives would duplicate other programs, would tend to be less effective than the other programs, would result in an additional bureaucracy that would be likely to become mired in controversy, and would threaten to increase the price of auctioned allowances.

I. THE SET-ASIDE PROGRAM WOULD DUPLICATE OTHER PROGRAMS.

Set-asides are just one of a number of approaches that could be used by California to achieve various public purpose objectives. This was recognized in the Western Climate Initiative ("WCI") Design Recommendations for the WCI Regional Cap-and-Trade Program ("WCI Design Recommendations"):

> The WCI Partner jurisdictions agree that a portion of the value represented by each WCI Partner jurisdiction's allowance budget *(for example, through set-asides of allowances, a distribution of revenues from the auctioning of allowances, or other means)* will be dedicated to one or more of the following public purposes which are expected to provide benefits region wide:
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> - Energy efficiency and renewable energy incentives and achievement;
> - Research, development, demonstrations, and deployment (RDD&D) with particular reference to carbon capture & sequestration (CCS); renewable energy generation, transmission and storage; and energy efficiency;
> - Promoting emission reductions and sequestration in agriculture, forestry and other uncapped sources; and
> - Human and natural community adaptation to climate change impacts.

WCI Design Recommendations, § 8.2.2, page 7 (September 23, 2008) (emphasis added). The WCI Design Recommendations were crafted by the WCI Partners under the guiding hand and with the concurrence of California representatives from the ARB and the California Environmental Protection Agency ("Cal/EPA").

The primary use of set-asides that was discussed at the May 18, 2009 workshop was to provide an incentive for energy efficiency and renewable energy projects. Certainly, in

California's case, it would be duplicative to establish a set-aside program to promote energy efficiency and renewable energy.

The California Public Utilities Commission ("CPUC") representatives explained at the workshop that the CPUC is already requiring the California investor-owned utilities to continue and to expand their energy efficiency programs. The publicly owned utilities that are members of SCPPA are similarly pursuing aggressive energy efficiency measures. SCPPA members have already invested more than $300 million to reduce energy usage in their service territories, achieving an average reduction of 50 megawatts of load, and they are going to be doing much more in the future. Statewide, according to the California Energy Commission, energy savings by publicly-owned utilities have risen 135 percent since 2006, while their energy efficiency expenditures have risen 90 percent. This demonstrates both the vigor of the publicly-owned utilities' effort and the cost-effectiveness of that effort.

During the workshop, advocates for having set-asides identified various specific energy efficiency activities that might be funded through set-asides. These activities ranged from redemption of obsolete refrigerators to planting trees in urban areas. Without exception, the measures that were mentioned are already being pursued by both publicly-owned utilities and investor-owned utilities.

Many of the energy efficiency measures that the utilities will be undertaking are uniquely appropriate for implementation by utilities. For example, various SCPPA members are introducing smart grid technology that will, among other things, be capable of providing home and business energy usage reports. The reports will empower households and businesses to better monitor and control their energy usage on a real time basis. One California publicly-owned utility has found that providing information to empower households and businesses to control their energy usage is by far the most cost-effective measure that can be undertaken to conserve energy. Home and business energy reports can result in savings costing 2.7 cents per kWh as opposed to 9.6 cents for average conservation and 25 cents for on-peak conservation.

Like energy efficiency, California already has multiple programs to promote renewable energy. These programs range from the California Solar Initiative to the institution of a renewable portfolio standard ("RPS") for utilities. The Scoping Plan proposes a 33 percent RPS. Scoping Plan at 20. SCPPA members are already imposing higher standards for themselves. For example, the Los Angeles Department of Water and Power ("LADWP") has adopted a 35 percent RPS. The City of Pasadena recently adopted a 40 percent RPS. Given the renewable portfolio standards that are being imposed upon utilities or are being voluntarily adopted by utilities such as the SCPPA members, the utilities are going to be extremely supportive of renewable projects, diminishing any need for additional support through set-asides.

For entities that are neither covered by a cap-and-trade program nor involved in governmentally mandated energy efficiency, renewable energy, or other programs in one way or another, the Scoping Plan envisions an offsets program though which such entities could be economically incentivized to pursue GHG emission reductions. Scoping Plan at 36-38. Thus, a set-aside program would be duplicative of other current or future programs and need not be pursued at this time.

II. A SET-ASIDE PROGRAM WOULD MOST LIKELY BE LESS EFFECTIVE THAN THE PROGRAMS THAT IT WOULD DUPLICATE.

In addition to duplicating what is or will be done through other programs, a set-aside program would be likely to be much less effective than the other programs. The purpose of set-asides is to provide an incentive for undertaking energy efficiency, renewable energy, or other public purpose efforts by providing a stream of funding. However, funding levels would depend upon the price of allowances. Thus, the level of the funding stream would fluctuate, making it undependable.

The variability in funding through a set-aside program would be apt to make the program far less effective than the programs that it would seek to duplicate. By contrast, the utility-funded programs that are already being undertaken aggressively by California investor-owned utilities and publicly-owned utilities will not fluctuate in tandem with gyrations in the market for allowances.

III. THE CREATION OF A SET-ASIDE PROGRAM WOULD NECESSITATE THE CREATION OF A NEW BUREAUCRACY TO ADMINISTER THE PROGRAM.

Creating a set-aside program would necessitate the creation of an entirely new bureaucracy at, presumably, the ARB to administer the program. This bureaucracy would be additional to the bureaucracies that will have to be created to administer the cap-and-trade program, the offsets program, and the various complementary measure programs that are envisioned in the Scoping Plan.

Worse, the bureaucracy that would have to be created to administer the set-aside program would be tasked with administering a program that is likely to be controversial. Given that there are already multiple programs in place to fund energy efficiency and renewable energy projects, there would need to be eligibility criteria to prevent double or triple funding for projects that seek set-asides. Likewise, the projects would need to be policed to assure that they actually result in whatever emissions reductions might be claimed by project developers. Most likely, it would be difficult to quantify the emissions reductions achieved by many of the types of projects that were suggested by set-aside advocates at the May 18, 2009 workshop.

For example, one advocate promoted the use of set-asides to fund energy efficiency programs in disadvantaged neighborhoods. Given that such programs are already being administered by utilities, there would need to be policing to assure against double-funding of energy efficiency activities. Likewise, there would need to be policing to assure that claimed emissions reductions were actually achieved. Given the difficulties that would be likely to arise in policing awards and quantifying emission reduction results, a set-aside program would tend to generate disputes and controversy.

IV. A SET-ASIDE PROGRAM WOULD BURDEN A CAP-AND-TRADE PROGRAM BY DRIVING UP ALLOWANCE PRICES.

In addition to being duplicative, ineffective, and dispute-ridden, it is quite possible that establishing a set-aside program would increase the economic burden of the cap-and-trade program without increasing the efficacy of the program. The fundamental concept underlying the creation of a set-aside program is that allowances would be deducted from the overall pool of allowances that are made available to covered entities either through an administrative allocation or through an auction. To the extent to which fewer allowances are made available initially to covered entities, the cost of auctioned allowances would be likely to be increased, with the set-aside allowances becoming available to covered entities only through a secondary market mechanism. That would result in an increased cost of allowances for those covered entities that would be required to acquire allowances through an auction rather than an administrative allocation.

V. CONCLUSION.

SCPPA appreciates this opportunity to express its views on the use of allowance set-asides in the cap-and-trade program as discussed at the May 18, 2009 workshop. For the reasons discussed above, SCPPA urges the ARB staff to defer consideration of the set-aside issues until the staff, stakeholders, and the public at large have an opportunity to discuss and evaluate options for structuring the California cap-and-trade program.

However, if the staff deems it to be appropriate to continue to evaluate the use of set-asides prior to considering the overall structure of the cap-and-trade program, SCPPA urges the staff to find that the use of set-asides in the cap-and-trade program should not be pursued because the use of set-asides would be duplicative, ineffective, administratively burdensome, and counter-productive. Reaching that determination would allow staff resources to be allocated toward the development and implementation of other programs that would be more promising that a set-aside program.

Respectfully submitted,

/s/ Norman A. Pedersen

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