BEFORE THE
AIR RESOURCES BOARD
OF THE
STATE OF CALIFORNIA

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY COMMENT ON CALIFORNIA ENVIRONMENTAL QUALITY ACT ANALYSIS OF CAP AND TRADE PROGRAM

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I. INTRODUCTION AND SUMMARY

The Southern California Public Power Authority ("SCPPA") [1] respectfully submits this comment on the analysis of the proposed California cap and trade program under the California Environmental Quality Act ("CEQA"). The CEQA analysis was discussed at the workshop conducted by the California Air Resources Board ("ARB") on August 23, 2010, entitled *California Environmental Quality Act Scoping Meeting for the Proposed Cap-and-Trade Regulation* ("CEQA Workshop").

In summary, SCPPA considers that the ARB's CEQA analysis should consider the following alternatives to the cap and trade program (in addition to the alternatives identified at the CEQA Workshop):

- An emissions trading program where an emissions baseline (cap or target) is set for each covered entity, based on historical emissions, and declining over time. Allowances are allocated to each entity up to its baseline. If an entity's emissions are lower than its baseline it can sell its excess allowances; if its emissions are higher than its baseline it must buy allowances. This type of emissions trading program design may be called a "baseline and credit" program.

[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, the Imperial Irrigation District, Pasadena, and Riverside.

- A cap and trade program with unlimited use of offsets from a variety of offset project types.

Furthermore, when considering the "No Project" and "Command & Control Regulations Only" alternatives identified in the CEQA Workshop, the ARB should take into account the fact that utilities are already heavily regulated and subject to several mandatory emission-reducing measures that are independent of the cap and trade program. At least in the short and medium term, a cap and trade program will impose costs but is unlikely to lead to any additional emission reductions in the electricity sector beyond those that are required under the existing regulations.

II. CONSIDER DIFFERENT PROGRAM DESIGN OPTIONS.

Slide 10 of the PowerPoint presented by ARB staff at the CEQA Workshop ("PowerPoint") lists the alternatives to the proposed cap and trade program that the CEQA analysis will consider. One of the listed alternatives is "Cap-and-Trade and Offset Design Options".

There are many options for the design of a cap and trade program and offsets program, and the ARB will not be able to consider all possible options in its CEQA analysis. However, SCPPA considers that the following two alternatives to the current design are important and should be considered. These options are not mutually exclusive. Emission reduction targets can still be met using these design options.

A. Baseline and credit program design.

A baseline and credit program design, as described above, differs in important respects from the cap and trade program currently proposed by the ARB. Two key differences are as follows:

Issue	Baseline and credit program	Cap and trade program
Caps	Emission caps ("baselines") are set for each covered entity, based on historical emissions.	One overall cap is set, for emissions from all covered entities.
Allowance allocation	Allowances are allocated to each covered entity up to its baseline.	Allowances are auctioned or allocated to covered entities and other entities in a manner to be determined.

In both program types, covered entities must hold allowances or other compliance instruments to match their emissions, and can trade excess compliance instruments, providing an incentive for emission reductions. In a baseline and credit program as well as a cap and trade program, caps decline over time to ensure that the long-term emissions reduction goal is met. Thus a baseline and credit program can result in emission reductions as effectively as a cap and trade program. However, the advantage of a baseline and credit program is that covered entities will not incur costs in obtaining compliance instruments as long as their emissions do not exceed their baseline. Additionally, in a baseline and credit program entities that reduce emissions below their baseline will receive a new income stream from the sale of their excess allowances, whereas in a cap and trade program an entity's emission reductions merely reduce its allowance purchase costs.

Baseline and credit programs have a successful history. This type of program design has been tested over time and continues to be employed in several emissions trading programs that achieve cost-effective emission reductions, including:

- the US Environmental Protection Agency's Acid Rain Program, reducing sulfur dioxide emissions from power stations (this program now also employs elements of a cap and trade program, with an overall cap on allowances);

- California's RECLAIM program (Regional CLean Air Incentives Market), reducing nitrogen oxides and sulfur oxides; and
- the New South Wales (Australia) Greenhouse Gas Reduction Scheme for power stations.

B. Unlimited use of offsets.

As noted on slide 5 of the PowerPoint, the proposed cap and trade program provides for a very limited use of offsets – up to approximately four percent of each entity's compliance obligation. The CEQA analysis should consider, as an alternative, allowing unlimited use of offsets for compliance purposes. With the rigorous offset principles that the ARB proposes, each offset would be assured to be an additional emission reduction. This means that the total emission reductions resulting from a program with no limits on the use of offsets would be the same as a program with no offsets or with limited offsets. Thus, the key environmental objective of the cap and trade program can be met while allowing unlimited use of offsets.

Allowing the unlimited use of offsets has two key benefits:

- Studies show that allowing increased or unlimited use of offsets is a very effective way to control the costs of a cap and trade program, as it allows emission reductions to take place in the most cost-effective manner.[2] Removing or increasing the percentage limit on the use of offsets by covered entities would substantially reduce the market price of compliance instruments and thus the cost to covered entities of participating in the cap and trade program, without affecting the emissions cap.

[2] See for example the Charles River Associates report dated March 24, 2010 "Analysis of the California ARB's Scoping Plan and Related Policy Insights, at 2: "If offsets expand to about 15% levels, costs decline by over 40% from programs at the 4% offset level."

- It will provide a greater incentive for the wide uptake of offset projects with valuable co-benefits, such as forestry projects that provide habitat for threatened species and assist in watershed management. Under a program allowing very few offsets, few (if any) such offset projects would be developed.

III. CONSIDER THE IMPACT OF EXISTING REGULATIONS.

Slide 10 of the PowerPoint lists as alternatives for consideration "No Project" and "Command & Control Regulations Only". When considering these alternatives, the ARB should take into account the fact that utilities are already heavily regulated and subject to several mandatory emission-reducing measures. These include:

- the renewable portfolio standard (likely to be increased to a target of 33 percent by 2020);
- the emissions performance standard (requiring the phase-out of power from coal plants); and
- energy efficiency programs.

At least in the short and medium term (i.e., for most of the period proposed for the cap and trade regulation, 2012-2020), a cap and trade program is unlikely to lead directly to any additional emission reductions in the electricity sector beyond those that are required under the existing programs. The cost of participating in a cap and trade program may however divert expenditure from other environmental programs that utilities are currently undertaking voluntarily.

IV. CONCLUSION

SCPPA urges the ARB to consider these comments when conducting the CEQA analysis of the proposed cap and trade program. SCPPA appreciates the opportunity to submit these comments to the ARB.

Respectfully submitted,

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