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Comments on the Proposed Regulation to Implement a California Greenhouse Gas Emissions Cap-and-Trade Program Posted October 28, 2010

The Los Angeles Water and Power Associates, Inc. (Associates) is pleased to provide comments on the proposed California's Greenhouse Gas (GHG) Emissions Cap-and-Trade Program (Program). The Associates have previously provided comments on the draft Scoping Plan and on the draft report prepared by the Economic and Allocation Advisory Committee. The Associates is a non profit, independent, private organization formed to educate the general public and elected officials on critical water and energy issues affecting California.

The Associates would like to complement the Air Resources Board (ARB), its staff and other interested parties in the development of this proposed regulation. It is evident that considerable input has taken place in the development of the proposed regulation. The Associates is providing comments in two areas pertaining to electric distribution utilities. First, the methodology for establishing and allocating the allowances and second the methodology for distribution of the allowances.

The **Associates support** ARB's general approach in determining the initial amount of available allowances and the annual reduction through 2020. In establishing the initial compliance burden for 2012, ARB staff used GHG data for 2008 and reduced the amount by 10% to approximate the expected emissions for 2012. Based on the current economic climate in California and the resulting reduced use of electricity, the amount appears to be consistent with projections. However, this is "today's" projection and history shows forecasts change. The Associates would caution the ARB in their projections for California's economic rebound. A stronger and earlier economic rebound will put tremendous pressure on the availability and costs of allowances. The **Associates recommend** that additional allowances be allocated to utilities, adjusting the initial starting point to ensure that the utilities do not start this Program with a deficit. The **Associates also support** the proposed three year compliance plan. Electrical demand varies from year to year and it will be difficult to predict the amount of allowances needed on an annual bases. The 33% Renewable Portfolio Standard and the aggressive energy efficiency programs are assumed to proceed as scheduled when in reality, they will have uncontrollable delays. Therefore, the proposed three year compliance period is a logical approach to the uncertain electric utility sector.

ARB understands the ongoing efforts and challenges of the State's electric utilities to attain the renewable energy goals of California. The renewable energy program and the GHG reduction program compliment each other in that they both will reduce GHG emissions. And, both could place a substantial financial burden on ratepayers. A GHG Program that would require utilities to purchase GHG allowances while at the same time the utilities are committing substantial resources to procure renewable energy will take its toll on the financial stability of the utilities. Taking this into consideration, the **Associates support** ARB's proposal to allocate "free" allowances to electric distribution companies. The reality is that the ratepayer will pay for the utilities efforts to reduce GHG. To also pay for the allowances would be asking the ratepayer to pay twice and not be assured that they would see the financial benefits returned in their electric bills.

The Associates second comment is related to the first comment in that the distribution of the allowances will be critical to the success of the Program. There have been several proposals that very well could shift the compliance burden from one utility to another (or one region of California to another). For example, this could happen by using data from programs such as conservation, energy efficiency and renewable energy. Then, using this information to estimate the GHG reductions that were accomplished, and then using this information as the bases to provide additional allowances to a utility. These extra allowances would then be removed from another utility to maintain the established allowance cap. The utility with the reduced allowance would be placed at a disadvantage in achieving compliance with the Program goals. If ARB is considering this method, then the **Associates recommend** that ARB increase the initial sector allocation to allow for the adjustments with a goal that no electric utility will have a short fall and receive less than its original allocation. However, any program that has to rely on estimates or projections for crediting GHG emission reductions is suspect. Therefore, the **Associates recommend and support** a program that utilizes a utility's GHG emissions, as reported to ARB, as the bases for determining the allocation of allowances. The resultant allocation program would be fair, straight forward, understandable and provide regulatory certainty.

Thank you for the opportunity to provide comments on the proposed GHG Program.

Sincerely,

Kent W. Noyes

Kent W. Noyes
President, Water and Power Associates, Inc.