Solar® Turbines
A Caterpillar Company

Solar Turbines Incorporated

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Clerk of the Board
California Air Resources Board
1001 J Street
Sacramento, CA 95812

Re: Comments of the Proposed Regulation to Implement the Cap and Trade Program

Dear Board Members

Solar Turbines (Solar) is an 85-year California Company with its corporate headquarters and two primary manufacturing facilities in San Diego. This includes 3,500 employees in California and more than 6,000 worldwide.

Solar had been a member of the California Climate Action Registry since 2006 and is a Climate Action Leader, and a new member of the Climate Registry. The San Diego Kearny Mesa facility, where all new products are packaged and shipped, has reported and verified GHG emissions under the ARB reporting regulation and will be subject to the Proposed Cap and Trade Regulation. The Harbor Drive facility will be subject to reporting in 2010 and the Cap and Trade regulation in 2015. Emissions are generated by turbine testing for research and development, and performance and safety testing required by customers.

Solar requests the ARB consider the following comments on a few priority aspects of the regulation.

1. **The proposed regulation is incomplete for a number of the smaller source categories including the category for Solar Turbines. Critical aspects have either not been evaluated or the data not provided, possible leading to trading schemes based on incomplete data.**

    - The proposed regulation generally does not adequately address the unique Research and Development aspects of Solar's San Diego operations. In comparison with typical manufacturing, predicting R&D activity several years in advance is problematic and impractical.

    - The proposed factors to determine emissions leakage potential are largely based on US data and do not reflect Solar's business or California operations. The information presented on "Value of Shipments" and "Value added" metrics used for our classification appear to be based on broader industry data. It is not clear if the ARB

considered that more than 70% of Solar's products are sold to international customers.

- The proposed benchmarking approaches, and Allocation Assistance Factors for the purposes of emission allocations, do not appear to be appropriate for Solar's operations or products. The Industry Assistance Factor presented in Table J-3 and benchmarking process should be developed uniquely for Solar since we are the only operation in our industry classification and should reflect our limited ability to switch to lower carbon strategies. The regulation should not be adopted for our industry sector until the benchmarks are completed and verified.

2. **The proposed floor price of $10/unit is not adequately justified. Setting the price floor at more than 5 times the known trading price in the US is not adequately justified and places California companies at an immediate competitive disadvantage. The ARB should delay setting a floor price, and adopt a new floor price by regulation every three years that would better reflect the market conditions and trading partners.**

3. **The proposed approach for using auction proceeds should be better defined. Additionally, there should be specifics on what market signals ARB will monitor in determining the amounts and timing of auctions/releases.**

4. **The ARB should consider delaying implementation of the regulation for smaller emitters (<100,000 TPY) until 2015 to allow regional or global markets to be established and viable for broader industry participation.**

Solar appreciates the difficulty in developing a Cap and Trade mechanism that will support compliance with AB 32. The ARB has a high level of expertise and proven performance for improving air quality. However, the proposed cap and trade regulation, as currently written, is incomplete for our business, especially in the area of baselines and benchmarking, resulting in uncertainty in developing a viable compliance strategy through 2020.

Thank you in advance for considering these comments, and we are available to work with ARB Staff on specific remedies.

Sincerely,

Craig Anderson
Director, Environmental Affairs
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