UNITED
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Base Maintenance

December 15, 2010

Submitted electronically

Clerk of the Board
Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Proposed Regulation to Implement the California Cap and Trade Program

Dear California Air Resources Board:

United Air Lines, Inc. (herein referred to as United or United Airlines) is pleased to have this opportunity to timely comment on the "Proposed Regulation to Implement the California Cap and Trade Program" (Proposed Regulation) that was issued by the Air Resources Board (ARB) on October 28, 2010.

As explained further below, we have significant concerns regarding the costs we will incur associated with the Proposed Regulations. We offer these comments as preliminary comments for ARB's consideration, and we look forward to further collaboration with the ARB staff regarding the development of the cap-and-trade program.

1. Background and Context of United's Maintenance Center

United Airlines San Francisco Maintenance Center (Maintenance Center), owned and operated by United, is located at the San Francisco International Airport and provides maintenance services for aircraft. United Cogen, Inc. (United Cogen), a wholly-owned subsidiary of United, operates a cogeneration system at the Maintenance Center. United Cogen provides thermal energy to the Maintenance Center for heating and operating certain equipment and also generates electricity that is sold to Pacific Gas & Electric Company (PG&E) which is in turn re-sold to their customers. In addition, United Cogen has a contract to provide electricity to the San Francisco International Airport in the event of a power outage.

The Maintenance Center provides aircraft maintenance services on behalf of United's aircraft fleet as well as for third party customers (such as the U.S. Air Force).

2. Current Treatment of the Maintenance Center under the Proposed Regulation

The Maintenance Center is subject to California's cap-and-trade program primarily due to greenhouse gas (GHG) emissions generated from the production of electricity and thermal energy by United Cogen. GHGs from the combustion of fuels in test cells (i.e., engines and auxiliary power units) used at the Maintenance Center are also covered by the Proposed Regulation. Emissions attributable to electricity generated by United Cogen that is sold to PG&E will likely be accounted for in the cost recovery provisions of the proposed settlement between the California cogeneration providers and the large utilities, assuming it is approved.[1] Emissions attributable to thermal energy generated by United Cogen and provided to the Maintenance Center would not be subject to the cost recovery provisions in the proposed settlement, and compliance instruments would need to be held to cover these emissions.

Industrial facilities that will receive free allowances are identified in Table 8-1 of the Proposed Regulation. According to the Initial Statement of Reasons (ISOR), assistance in the form of free allowances is provided to industrial facilities for two purposes: 1) to provide transition assistance; and 2) to prevent leakage of emissions (i.e., the shift of emissions outside of California)(See ISOR, II-26). Free allowances are intended to mitigate carbon costs that cannot be passed along to customers due to leakage risk. In addition, staff proposes that carbon costs from heat consumed on-site at industrial facilities subject to leakage risk be compensated through the allocation of free allowances (See Appendix J, Table J-7). The ARB notes that the ability for leakage prone industries to recover direct and indirect carbon costs should create an incentive for the installation of cogeneration systems (See Appendix J, J-32). Many, if not all, cogeneration facilities that report based on their industrial host's NAICS code are listed in Table 8-1 and would receive free allowances to cover carbon costs associated with heat and electricity consumed on-site.

The aviation maintenance services sector—NAICS code of 411190—was not analyzed in the leakage analysis. Because the Maintenance Center is not identified as an industrial sector that is subject to leakage risk, no free allowances are provided to the Maintenance Center under the Proposed Regulation.

3. Leakage Risk Related to the Maintenance Center

The leakage analysis conducted to support the allocation decisions in the Proposed Regulation focused on goods manufacturing and extractive industries rather than service providers. However, service providers like aircraft maintenance services face similar costs, trade exposure and leakage issues as goods manufacturers and extractive industries and thus should be included in the leakage analysis. Due to the fact that aircraft maintenance services is an emissions intensive and trade exposed sector with a high risk of leakage, we ask that the ARB identify this sector in Table 8-1 as one eligible for free allowances.

Large aircraft maintenance facilities, such as United's Maintenance Center, are emissions intensive primarily due to the fact that certain of the hangar bays and other spaces are

[1] QF and CHP Program Settlement Agreement filed at the California Public Utilities Commission (CPUC) on October 8, 2010.

temperature regulated (depending upon the work being performed and the weather). Heating these large spaces requires significant thermal energy, which results in corresponding GHG emissions. United also utilizes thermal energy to heat tanks for several cleaning and electroplating processes, as well as steam cleaning of aircraft and associated components (many of these aqueous based cleaning processes were implemented in order to eliminate the use of chlorinated solvents). United has relied on United Cogen as an efficient means by which to supply thermal energy for the Maintenance Center's heating needs.

The aircraft maintenance services industry is trade exposed due to the competitiveness of the aviation industry and due to high mobility of aircraft (i.e., equipment can be flown to different geographical regions to have the maintenance performed). There is limited ability to pass along compliance costs like those from the Proposed Regulation through airplane tickets due to the fact that the airline industry is highly competitive and other airlines' maintenance providers are not subject to the Proposed Regulation. Instead, additional costs like those from the Proposed Regulation would likely have to be absorbed by United. This would necessitate consideration of available alternatives to maintain United's cost competitiveness for aircraft servicing.

United has already had to relocate certain of its maintenance services out of the State of California due to increased operating costs and the availability of such services at reduced costs. Heavy maintenance currently performed on United aircraft outside of California occurs in jurisdictions that do not have carbon regulations that are comparable to California's cap-and-trade program.

The highly mobile nature of aircraft also affects the Maintenance Center's ability to pass through carbon costs to its third party customers. Customers facing increased costs at the Maintenance Center can fly elsewhere to receive maintenance services which is compounded by the fact that other jurisdictions do not have similar carbon cost constraints. Due to the competitive nature of the aircraft maintenance sector and the unique mobility of aircraft, such increased costs can potentially impact decisions regarding where to obtain services.

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We appreciate the opportunity to provide these comments and look forward to further discussions with ARB staff regarding our situation. Should you have any questions about these comments you may contact me at (650) 634-7033 or contact Steve Sulgit at (650) 634 -7209, or by e-mail at steve.sulgit@united.com.

Sincerely yours,

Robert Madigan

Managing Director Base Maintenance

United Airlines San Francisco Maintenance Center