



August 11, 2011

Ms. Mary Nichols, Chair and  
Members of the Air Resources Board  
1001 "I" Street  
Sacramento, CA 95814

**Re: Comment on Cap-and-Trade Regulation**

Dear Ms. Nichols and Members of the Board:

Thank you for the opportunity during this 15-day comment period to provide input on the Cap-and-Trade regulation. The Industrial Environmental Association (IEA) represents diverse industry sectors, including manufacturing, technology and research and development companies in Southern California. Our organization works diligently with our membership to continually improve environmental performance in their operations and facilities. There are two issue areas we would like to address at this stage of the regulatory process:

➤ **Leakage:** We continue to believe that the methodology and calculations to establish leakage categories need further review and refinement. The categories do not accurately reflect or attempt to measure how highly sought after some of these businesses are by other states and countries, with offers of financial incentives, fast-track permitting and less regulation. Industries, such as pharmaceuticals, aeronautics and specialty manufacturing are all at high risk to leave the state and should be treated accordingly in the leakage classifications.

➤ **Combined Heat and Power:** IEA is concerned that the California Air Resources Board (CARB) still has not addressed the issues unique to combined heat and power (CHP). CHP is an important technology. The positive aspects of CHP include increased reliability for industrial facilities, controlled output consistent with facility demands, improved efficiencies and reduction of greenhouse gas emission. IEA full supported CARB's commitment to CHP in Resolution 10-42 which "*directs the Executive Officer . . . to ensure that appropriate incentives are provided for increased use of efficient combined heat and power.*" IEA believes the impacts of cap-and-trade on CHP facilities should be addressed at this time:

- CHP decreases societal emissions but increases a host's direct emissions from increased power production on-site and, as a result, its carbon cost exposure. Such facilities should qualify for free allowances or other early action credit that reflects the net reduction in societal CO2 emissions achieved;
- Industrial facilities whose on-site CO2e emissions exceed the 25,000 metric tonnes/year threshold only because of incremental CO2 emissions from their CHP plant will be faced with a compliance obligation under the cap-and-trade program that they would not have without the CHP plant. This could cause facilities with existing CHP plants to close these plants, resulting in a decrease in on-site energy efficiency and an increase in societal greenhouse gas emissions.
- The AB 32 Cap-and-Trade program as currently constituted inhibits the development of new CHP. Whether a facility is benchmarked in terms of tonnes of CO2 emissions/ton of output or tonnes of CO2 emissions/energy used (MMBtu), the facility's emissions and compliance obligation would increase with the installation of a new CHP plant without a concomitant increase in either production or energy use. Yet the CHP installation results in more efficient production of the energy consumed by the facility and a net reduction in societal greenhouse gas emissions.

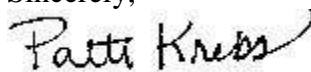
IEA respectfully request that ARB place a high priority on adopting positive incentive measures that can be used to meet the board's stated program goals and promote CHP in the following ways:

- Support for the Self-Generation Incentive Program (SGIP);
- Free allowances to cover carbon emissions from CHP installations;
- Credit mechanisms both for early, ongoing and future actions related to CHP; and
- Exemption from a compliance obligation for facilities whose CO2e emissions would not exceed the 25,000 tonnes/year threshold but for the existence, expansion or new installation of a CHP plant.

We urge CARB to further explore these options and to closely coordinate with the Public Utilities Commission on the potential to set aside allowances for CHP operators for the net greenhouse gas emissions reductions on the California grid resulting in a power production offset by the CHP installation.

Thank you for your consideration of our comments.

Sincerely,



Patti Krebs  
Executive Director