

COALITION FOR SUSTAINABLE CEMENT MANUFACTURING & ENVIRONMENT  
1029 J Street, Suite 300, Sacramento, CA 95814

September 22, 2011

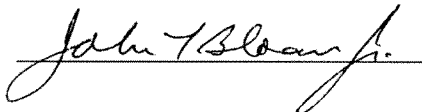
Ms. Mary Nichols, Chairman  
California Air Resources Board  
1001 "I" Street  
Post Office Box 2815  
Sacramento, California 95812

**Subject: Comments on CARB's September 12, 2011 Second Notice of Public Availability of Modified Text and Availability of Additional Documents and Information Regarding a Proposed Modification to the "True-up" Method in The Allowance Allocation System**

Dear Ms. Nichols:

The Coalition for Sustainable Cement Manufacturing and Environment ("CSCME"), a coalition of all six cement manufacturers in California,<sup>1</sup> hereby submits the following comments on the Second Notice of Public Availability of Modified Text and Availability of Additional Documents ("15-day Notice") issued on September 12, 2011 by the California Air Resources Board ("CARB"). On September 8, 2011, CSCME submitted brief comments to CARB proposing a modification to the "true-up" method in the allowance allocation system. This simple modification would ensure that facilities receive the appropriate true-up for the last two years of the program if the Cap-and-Trade program is discontinued. CSCME now reiterates those comments, and attaches them to ensure they are part of the record of this proceeding.

Sincerely yours,



John T. Bloom, Jr.  
Chairman, Executive Committee, Coalition for Sustainable Cement Manufacturing & Environment  
Vice President & Chief Economist, U.S. Operations, Cemex

CC:

*Edie Chang, California Air Resources Board*  
*Steven Cliff, California Air Resources Board*  
*Bob Fletcher, California Air Resources Board*

*James Goldstene, California Air Resources Board*  
*Virgil Welch, California Air Resources Board*

---

<sup>1</sup> The Coalition includes CalPortland Company, Cemex, Inc., Lehigh Southwest Cement Company, Mitsubishi Cement Corporation, National Cement Company of California Inc., and Texas Industries, Inc. There are ten cement plants located in California, eight of which are currently operating in the aftermath of the recent recession and uneven economic recovery.

COALITION FOR SUSTAINABLE CEMENT MANUFACTURING & ENVIRONMENT  
1029 J Street, Suite 300, Sacramento, CA 95814

September 8, 2011

Ms. Mary Nichols, Chairman  
California Air Resources Board  
1001 "I" Street  
Post Office Box 2815  
Sacramento, California 95812

**Subject: Comments Regarding Proposed Modification To "True-Up" Method In Allowance Allocation System**

Dear Ms. Nichols:

The Coalition for Sustainable Cement Manufacturing and Environment ("CSCME"), a coalition of all six cement manufacturers in California,<sup>1</sup> hereby submits the following comments regarding an additional proposed modification to the proposed "true-up" method in the allowance allocation system. This submission supplements CSCME's previous comments on the true-up issue and presents an additional simple modification that would resolve one of the outstanding issues with the proposed methodology.

In previous comments, CSCME commended CARB staff for its proposed modifications to the output term of the allowance allocation system, including the use of output data from the most recent year available and the inclusion of a "true-up factor" in the allocation formula.<sup>2</sup> These proposed modifications would resolve many aspects of the "mismatch" between actual allowance allocation and the intended level that likely would have been created by the approach proposed in the Initial Statement of Reasons ("ISOR"). CSCME also noted in those comments, however, that the proposed solution only approximates a "pure" true-up mechanism and does not eliminate all of the biases embedded in the ISOR approach.<sup>3</sup>

Specifically, the proposed solution does not eliminate the possibility that facilities will not receive true-ups for the last two years of the program in the event that the Cap-and-Trade program is discontinued. Furthermore, it does not eliminate the possibility that a facility may need to submit compliance obligations well in advance of receiving its full portion of allowances — effectively imposing "carrying costs" on those facilities in the intervening months. CSCME proposed an alternative approach that

---

<sup>1</sup> The Coalition includes CalPortland Company, Cemex, Inc., Lehigh Southwest Cement Company, Mitsubishi Cement Corporation, National Cement Company of California Inc., and Texas Industries, Inc. There are ten cement plants located in California, eight of which are currently operating in the aftermath of the recent recession and uneven economic recovery.

<sup>2</sup> See CSCME letter to Chairman Mary Nichols (Aug. 11, 2011) at 6-7.

<sup>3</sup> *Id.*

would resolve both of these issues by applying the true-up factor to existing compliance obligations rather than to future allocations.<sup>4</sup>

CSCME continues to believe that the solution proposed in its previous comments is the best approach to resolving these two outstanding issues. In the alternative, however, another straightforward solution would resolve one of the two issues — the possibility that facilities would not receive a true-up for the last two years of the program. As explained previously, this potential issue remains because the current proposed “true-up” would take place two years after corresponding compliance obligations. Under the existing structure, if the cap-and-trade program were to end, there would be no true-up for the final two years of the program.

In order to correct the methodology, CSCME proposes the following additional revisions to Section 95891 of the Cap-and-Trade Regulation (proposed revisions in bold double-underlining):

#### **§ 95891. Allocation for Industry Assistance.**

(b) Product Output-Based Allocation Calculation Methodology.  
**Except as provided in subpart (c),** ~~The~~ Executive Officer shall calculate the amount of California GHG Allowances directly allocated under a product output-based methodology annually using the following formula:

[This portion of Section 95891(b) is omitted . . . ]

“ $O_{a,trueup}$ ” adjusts for any output not properly accounted for in prior years’ allocations. The Executive Officer will calculate this term using the difference between the output reported in data year “t-4” and the output reported in data year “t-2.”

“ $B_a$ ” is the emissions efficiency benchmark per unit of output ~~assigned by the Executive Officer to~~ for each eligible activity defined in Table 9-1;

“ $AF_{al,t}$ ” is the assistance factor for budget year “t” assigned to each activity “a” listed industrial sector “I” as specified in Table 8-1; and

“ $c_{al,t}$ ” is the adjustment factor for budget year “t” assigned to each activity “a” listed industrial sector “I” to account for cap decline as specified in Table 9-2.

---

<sup>4</sup> *Id.*

**(c) Product Output-Based Allocation Calculation Methodology for Budget Year 2020. The Executive Officer shall calculate the amount of California GHG Allowances directly allocated under a product output-based methodology for budget year 2020 using the following formula:**

$$C_t = E_t - \sum O_{a,trueup,t-2} * B_a * AF_{a,t-2} * C_{a,t-2} - \sum O_{a,trueup,t-1} * B_a * AF_{a,t-1} * C_{a,t-1}$$

**Where:**

"t" = last year of program

"C<sub>t</sub>" is an entity's total compliance obligations for budget year "t".

"E<sub>t</sub>" is an entity's GHG emissions during budget year "t".

"O<sub>a,trueup,t-2</sub>" adjusts for any output not properly accounted for in budget year "t-2". The Executive Officer will calculate this term using the difference between the output reported in data year "t-4" and the output reported in data year "t-2."

"O<sub>a,trueup,t-1</sub>" adjusts for any output not properly accounted for in budget year "t-1". The Executive Officer will calculate this term using the difference between the output reported in data year "t-3" and the output reported in data year "t-1."

Finally, CSCME proposes the "justification" below to explain why these changes are needed.

**Justification**

At the beginning of each year, CARB allocates allowances to industrial sources based on an estimate of output. This estimate corresponds to the entity's output two years prior, which represents the most recent verified data available at the time of allocation. Furthermore, CARB proposes to "true up" the difference between estimated and actual output levels in a given year once the data become available. This true-up is achieved by adjusting annual allocations to properly account for the difference between estimated and actual output two years prior.

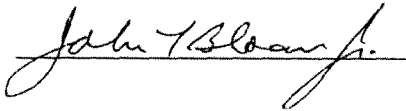
However, in the event that the cap-and-trade program is discontinued, CARB will not have the opportunity to true up differences in estimated and actual output via future allowance allocations. As a result, a complete and proper accounting of allowance allocations in the last two

Ms. Mary Nichols  
California Air Resources Board  
September 8, 2011  
Page 4

years of the program will not occur — creating the potential that an entity could ultimately receive far more or far fewer allowances than intended. Accordingly, in the event that the cap-and-trade program is discontinued for any reason, CARB should adjust an industrial source's final compliance obligations to account for differences between estimated and actual output in the final two years.

CSCME believes that these modifications are important in order to ensure that each producer receives the intended amount of allowance allocations — no more and no less — even in the event, however unlikely, that the cap-and-trade program is discontinued at some point in the future. This change can be implemented without disturbing or modifying any other regulatory provisions. CSCME is pleased with the progress that has been made so far in developing a workable and effective true-up method and looks forward to working with CARB to resolve these outstanding issues.

Sincerely yours,

A handwritten signature in black ink, reading "John T. Bloom, Jr.", written over a horizontal line.

John T. Bloom, Jr.  
Chairman, Executive Committee, Coalition for Sustainable Cement Manufacturing & Environment  
Vice President & Chief Economist, U.S. Operations, Cemex

CC:

*Edie Chang, California Air Resources Board*  
*Steven Cliff, California Air Resources Board*  
*Bob Fletcher, California Air Resources Board*

*James Goldstene, California Air Resources Board*  
*Virgil Welch, California Air Resources Board*