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EXECUTIVE VICE PRESIDENT—
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September 23, 2011

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

Re: Comments on proposed 15-day modification to cap-and-trade rulemaking

Dear Board Members:

The University of California (UC) was deeply disappointed by California Air Resources Board's (CARB) draft rulemaking of September 12, 2011. If adopted, this rulemaking will require UC to purchase 100 percent of its allowances starting in year one of the cap-and-trade program at an annual cost of $7-$28 million, or more. The purchase of allowances imposes significant added costs on University operations at a time when State *General Fund support for the* UC *has been reduced by over $1.2 billion in the last 4 years*.

The University of California supports the goals of AB 32 and has never sought an exemption from the cap-and-trade program. However, the University believes that public entities that are regulated under cap-and-trade should be treated no worse than industrial facilities and utility companies.

For the last two years, the University has tried to work with CARB to develop a compliance path that maintains the cap-and-trade program's integrity while minimizing its negative impacts on the University of California's teaching, research, and public service missions. Building on previous discussions with CARB, the University proposes the following:

- UC campuses that are directly regulated under cap-and-trade will be required to submit a five-year plan to CARB that details anticipated investments in greenhouse gas (GHG) abatement.

- Pending CARB's approval of these plans, regulated UC campuses will receive an allocation of allowances sufficient to cover 100 percent of their surrender obligation for the duration of the cap-and-trade program.

- In exchange for this free allocation, CARB will require regulated UC campuses to invest a sum commensurate to 125 percent of the market value of the freely allocated allowances in projects that abate Scope 1 and Scope 2 GHG emissions.

- UC will also commit to reducing its regulated emissions by 7 percent by 2020. This is in line with the overall, state-wide emissions reduction that CARB is targeting with its cap-and-trade program.

The proposal reflects the University's deep commitment to reducing its own carbon footprint. In exchange for the ability to invest compliance dollars in real abatement projects, UC is willing to invest a sum greater than what it would otherwise expect to pay to purchase allowances at auction. Moreover, as a capped sector entity, the University is willing to commit to achieving its proportional share of emissions abatement.

In communications with the University, CARB has expressed concern that accepting UC's proposal will open a Pandora's box and that countless other regulated entities will demand similar accommodation from CARB. CARB's fears are unfounded. In the unlikely event that there are other regulated entities willing to spend more on abatement projects than they would otherwise spend on allowances, and are further willing to commit to a seven percent reduction in surrender obligation by 2020, there is no downside for CARB allowing them to do so.

Over 90 percent of UC's anticipated compliance costs are the direct results of its investment in combined heat and power (CHP) plants. Were it not for these CHP plants, most of the UC sites that are regulated under cap-and-trade would not be facing carbon costs for natural gas usage until 2015. Thus, CARB's rulemaking imposes a penalty for early adopters of CHP, an outcome that directly contradicts the AB 32 Scoping Plan, which expressly encourages increased use of CHP as a major abatement measure.

In recent months, CARB has offered the assurance that UC campuses with CHP plants will have access to the allowance value that is being allocated to the State's electric utilities for the benefit of end-use customers. Even if the utility companies and CPUC were inclined to return this allowance value to self generators like UC, it would be challenging for them to do so because emissions from UC's CHP plants are not included in the allowance allocation that utilities will receive from CARB. The simplest way to remedy this shortcoming would be to allocate allowance value to self-generators, since they effectively function as both a utility and an end-use customer. Barring this approach, CARB should at least include emissions from CHP plants that serve onsite load when determining allowance allocations to utility companies.

Lastly, for the record the University hereby incorporates by reference the comments contained in its previous letters to you dated December 3, 2010 from Senior Counsel Anthony Garvin and August 10, 2011 from Senior Vice President Dan Dooley.

Sincerely,

Nathan Brostrom

Nathan Brostrom
Executive Vice President

cc: Senior Vice President Dooley
Vice President Lenz
Senior Counsel Garvin
Associate Vice President Juarez
Associate Vice President Obley
Associate Vice President Reese
Associate Vice President Wylie
Director Getgen