

California Municipal Utilities Association

915 L Street, Suite 1460 • Sacramento CA 95814 • 916/326-5800 • 916/326-5810 fax • www.cmua.org

December 8, 2010

The Honorable Mary Nichols
California Resources Board
1001 I Street
Sacramento, CA 95814

Re: Comments on Proposed Regulation: California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms

Dear Ms. Nichols:

Thank you for the opportunity to submit these comments on the Proposed Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms (Cap & Trade) released by the California Air Resources Board (ARB) on October 28, 2010. The California Municipal Utilities Association (CMUA) greatly appreciates the coordination and hard work of the Air Resources Board (ARB) staff on this ground breaking effort.

CMUA was formed in 1933 to protect the interests of California's publicly-owned utilities (POUs) and represents its members' interests on energy and water issues before the California Legislature, the Governor's Office, and the many regulatory bodies.

POUs are committed to meeting the goals outlined by AB32 in a cost-effective manner as we transition to a lower carbon economy. While many of our members will provide individual comments on the overall rule language, CMUA's comments today support the allocation election for POUs outlined in Sub-Section 95892(b)(2).

Under the *Allocation to Electrical Distribution Utilities for Protection of Electricity Ratepayers*, §95892(b)(2), POUs are allowed, after informing the Executive Officer, to divide their share of freely allocated allowances into portions designated for either:

- (A) The publicly owned electric utility's compliance account, or
- (B) The publicly owned electric utility's limited use holding account.

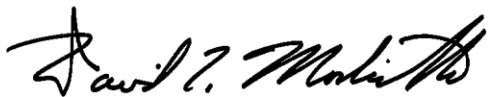
By including this provision, the ARB has correctly acknowledged that the electric sector remains only partially deregulated and as a result the electric distribution utilities remain very diverse. This provision is an important recognition by the ARB that all entities should have a reasonable means to comply with the Cap & Trade rule in a manner that accommodates their respective business models and compliance strategies. CMUA agrees with the rationale for the provision that POUs are largely vertically integrated, and in addition points out that some POUs may be disproportionately impacted if

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required to participate in quarterly auctions due to significant capital needed, and
transaction costs expected to participate.

In summary, CMUA appreciates the opportunity to submit this support letter to the ARB.
We look forward to continuing to work with staff during the 15-day change process, and
through the implementation phase of the rule once adopted by the Board.

Sincerely,

A handwritten signature in black ink, appearing to read "David L. Modisette". The signature is fluid and cursive, with a large initial "D" and "M".

David L. Modisette, Executive Director
California Municipal Utilities Association

cc: Michael Gibbs
Kevin Kennedy
Judith Friedman
Steve Cliff