

Solar® Turbines

A Caterpillar Company

Solar Turbines Incorporated

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16-8-4
Craig Anderson

September 22, 2016

Clerk of the Board
California Air Resources Board
1001 J Street
Sacramento, CA 95812

Re: September 22, 2016 Board Meeting Agenda Item 16-8-4, Proposed Revisions to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms

Dear Board Members

Solar Turbines (Solar) is an 89-year California Company with its corporate headquarters and two primary manufacturing facilities in San Diego. This includes 4,000 employees in California and more than 7,000 worldwide. We are an international company, providing clean energy solutions to customers on every continent. Solar is the only industrial gas turbine manufacturer in California.

The San Diego Kearny Mesa facility, where all new products are packaged and shipped, is subject to the mandatory reporting and cap and trade regulations. Emissions are generated by gas turbine testing for research and development, and performance and safety testing required by customers.

Solar appreciates the time that Staff has recently taken to understand our business, including a visit to the Kearny Mesa facility in March and office meeting in Sacramento in August. We have openly discussed the impacts of these regulations on our business and investment strategies for our California operations.

Solar respectfully submits the following comments on the August 2 proposed changes to the Cap and Trade Program:

- 1. Emission and Investment Leakage Analysis** - Solar remains concerned that we remain designated as a medium leakage risk. This designation will reduce our assistance factor by 25%. ARB Staff has not provided any information that substantiates the leakage analysis methodology is applicable to a single entity. Staff has also indicated that there will not be any changes for the 3rd compliance period, so that companies can plan accordingly. This is not the detailed reasoning industry was looking for when the Board directed Staff to revisit their leakage

analysis in Resolutions 11-32 and 12-33. Staff should provide specific reasons and methodology for Solar's 3rd compliance period leakage designation.

2. **True-up Action Transparency** - Staff will *True-up* allowance allocations based on updated production data. This could have a significant impact on allowance planning and auction participation. Staff should be required to provide entities with a *proposed True-up action report* prior to making any changes in CITSS.
3. **Post 2020 Industry Assistance Factors** - The recommended regulatory changes do not include any proposed allocation assistance for Solar Turbines. ARB Staff would not provide any details to Solar about what may be proposed at a later date. Solar and other California businesses remain trade exposed, particularly given that no western states have joined the AB32 program, or enacted equivalent regulations on manufacturing. Solar has reduced our carbon footprint by 21% since 2006, and is committed to making more progress. However, assistance is still necessary, particularly for trade exposed companies like Solar that compete in international markets, to free up capital for plant investments. Solar requests that the Board direct staff to provide Solar with a post 2020 assistance factor of 100%. Additionally, any entity-specific allowances remaining from the previous compliance periods should be available for use in post 2020.
4. **Comment Period for Post 2020 Industry Assistance Factors:** Staff is proposing a 15 day comment period for changes to the draft regulation. This will not be sufficient time for regulated entities to evaluate data for their sectors. The Board should allow at least 45 days for comments on proposed changes, particularly for post-2020 assistance factors.

In summary, Solar is very concerned that the proposed regulation represents considerable uncertainty and risk to our business. We have worked hard to reduce our emissions from engine testing, but our customer requirements for demonstrating product safety through testing are actually increasing. Continued transition assistance under the Cap and Trade program is essential to ensure that our unique, California based business, can meet customer expectations and remain competitive in a global market place.

Thank you in advance for considering these comments. Please contact myself or Nadine Spertus for further discussion.

Sincerely,



Craig Anderson
 Director, Environmental Affairs
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