



EXECUTIVE VICE PRESIDENT —
BUSINESS OPERATIONS

OFFICE OF THE PRESIDENT
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June 7, 2010

California Air Resources Board Staff

Dear Colleagues:

On behalf of the University of California system, the following comments are provided in response to proposals discussed at the May 17, 2010 cap-and-trade status update workshop.

As the State of California's premiere research institution, the University applauds the Air Resources Board's plan to use allowance value to create the California Carbon Trust to fund research, development, and deployment projects for zero or low-GHG technologies. Addressing global warming requires technological innovation at scale, and the University urges ARB to allocate allowance value commensurate to this research challenge.

Based on current practices and ARB draft regulations, it appears that five University of California campuses and one medical center will be regulated under the proposed "narrow scope" cap-and-trade. Beginning in 2012, the University anticipates that its annual compliance costs will be between \$6 million and \$18 million, assuming allowance prices in the range of \$10 to \$30. The University supports the goals of AB 32 and will comply with all regulatory obligations but wishes to point out that, absent increased funding from the State, the costs of cap-and-trade compliance will be borne directly or indirectly by students, faculty, and researchers, to the detriment of teaching and research activities.

The University suggests that the negative impacts that cap-and-trade compliance costs will have on teaching and research at State-funded universities could be partially or wholly mitigated if ARB were to allocate some allowance value to State-funded universities for the express purpose of investing in carbon reduction projects. Projects, such as energy efficiency retrofits and renewable energy installations, directly contribute to the State's environmental goals and also reduce campus operating costs, allowing universities to redirect funds toward teaching and research activities. Given public higher education's importance to the long-term economic and cultural health of the State, the University feels that this proposal is worthy of ARB's consideration.

As a large direct access customer, the University urges the Air Resources Board to allocate allowance value in a consistent manner to all Load Serving Entities that are required to meet the Renewable Energy Standard (RES), including utilities and Energy Service Providers. Staff comments during the May 17 workshop lead us to believe that this is ARB's intention, but the University would appreciate clarification on this point.

Lastly, the University supports limited allocation of allowance value to merchant generators so that they can recover cap-and-trade compliance costs that cannot be passed along to current customers under the terms of preexisting power purchase agreements. Absent some allocation of allowance value, it stands to reason that regulated merchant generators will be forced to pass all cap-and-trade compliance costs along to future customers. If this happens, it will create an advantage for utility companies that can spread compliance costs throughout their rate base and will discourage new participants in the wholesale power market/direct access. ARB policy should not undermine competition in California's electricity market, particularly at a time when environmentally motivated entities are beginning to use Community Choice Aggregation or similar strategies to enter wholesale power markets in order to procure cost-competitive electricity portfolios.

Thank you for this opportunity to provide feedback.

Sincerely,

A handwritten signature in black ink, appearing to read "Nathan Brostrom". The signature is fluid and cursive, with the first name "Nathan" being more prominent than the last name "Brostrom".

Nathan Brostrom
Executive Vice President

cc: Vice President Lenz