

**Comments of the Western Power Trading Forum to the California Air
Resources Board on the Proposed Climate Change Scoping Plan**

December 08, 2008

The Western Power Trading Forum¹ (WPTF) appreciates the opportunity to provide input to the California Air Resources Board (ARB) on its consideration of the proposed Scoping Plan to achieve reductions in greenhouse gas (GHG) emissions under Assembly Bill 32. WPTF is pleased that the role of a cap and trade program features prominently in the Scoping Plan. The Scoping Plan relies heavily on expansion of existing regulatory programs, including the Renewable Portfolio Standard, and energy efficiency activities, which may undermine the efficiency of a cap and trade system and increase costs of achieving emission reductions. While we are skeptical that the costs of achieving emission reductions through regulatory programs will be as low as projected in ARB's economic analysis, our skepticism does not undermine our fundamental conclusion that a cap and trade system is the most efficient means of reducing emissions in the long term.

Like other stakeholders, WPTF does not support all elements of the proposed Scoping Plan. However, we believe that it appropriately balances competing interest and will maintain California's leadership role in reducing GHG emissions. We therefore support the Board's adoption of the Scoping Plan as proposed.

¹ WPTF is a California non-profit, mutual benefit corporation comprising power marketers, generators, investment banks, public utilities and energy service providers, whose common interest is the development of competitive electricity markets in the West. WPTF has over 60 members participating in power markets within the WCI member states and provinces, as well as other markets across the United States.

I. A Cap and Trade system should be the core of California's GHG reduction plan

WPTF strongly supports the implementation of a multi-sector cap and trade system as the core of California's GHG reduction plan. While WPTF would prefer a federal or regional system over a California-only system, we believe that benefits of moving forward with a state-level trading system outweigh alternative options for reducing GHG emissions. Further, in developing a state-level GHG cap and trade system, California has an important opportunity to influence the scope and design of any future federal system.

Because a cap and trade system provides capped entities with flexibility to find and use the lowest cost means of meeting their emission obligations, it will achieve emission reductions equivalent to traditional regulatory approaches, but more efficiently and at a lower overall cost to regulated firms and to society as a whole.² The ability of cap and trade to achieve emission reductions at least cost is particularly important in light of the level of emission reductions required to address climate change over the long-term. While AB32 does not specify a long-term emission reduction goal, reductions on the magnitude of 50% to 80% below current levels by mid-century are considered necessary to stabilize atmospheric concentrations. Achieving this level of emission reductions will undoubtedly be costly. It is therefore critical that policy makers choose the most cost-effective solutions.

Contrary to the comments of the Environmental Justice Advisory Committee (EJAC), cap and trade systems have an established track record in successfully

² Studies of the US Acid Rain Program found cost savings of 50% compared to traditional regulatory approaches. See Ellerman, A. D., et al. 2003. Emissions Trading in the U.S.: Experience, Lessons, and Considerations for Greenhouse Gases. Arlington, VA: Pew Center on Global Climate Change.

addressing emissions. The two programs that the EJAC cites as evidence that emissions trading does not work - Phase I of the European Emission Trading System, and the South Coast Air Quality Management District's RECLAIM program – were impaired by program design, not by any inherent flaw in cap and trade as a regulatory tool.

For instance, the EJAC cites the low level of emission reductions achieved in Phase I of the EU ETS as proof that a cap and trade system is ineffective in reducing emissions. Yet, the EJAC itself notes that the lack of reliable data on facility level emissions resulted in an over-allocation of allowances in that program. In other words, the Phase I cap was set too high. The EU has since improved its reporting and monitoring system, and tightened its cap for Phase 2.³ As a result, allowance prices for the Phase 2, which coincides with the EU's obligations under the Kyoto Protocol, have consistently remained above US \$20 per ton.

The EJAC also cites problems in the RECLAIM program. In 2000 demand for allowances and allowance prices increased dramatically, leading to non-compliance by some firms, and a temporary suspension of the program. Like the EU ETS Phase I, the RECLAIM program was over-allocated in its early years. The situation changed in the year 2000, when for the first time, the quantity of allowances issued was less than business-as-usual emissions. This cross-over point, where allocations became less available, had been anticipated by SCAQMD to occur around this time. However, because regulated entities did not have access to emissions and market data, they did not foresee the increase in allowance demand and prices that occurred in 2000. The California energy crisis exacerbated the situation: demand for allowances further

³ Decision of the European Commission establishing guidelines for the monitoring and reporting of greenhouse gas emissions pursuant to Directive 2003/87/EC of the European Parliament and of the Council, January 29, 2004

increased as facilities brought older, less efficient equipment on-line to meet electricity needs.⁴ Finally, because non-compliance penalties did not exceed allowance prices, some firms found non-compliance less costly than purchasing allowances. This in turn resulted in a breach of the program's cap. After correction of these flaws, the RECLAIM program has operated correctly and successfully reduced emissions.

WPTF also notes that the concerns raised by the EJAC regarding the economic impact of a cap and trade program on consumers would also occur under a carbon tax. If there is a transition to the auction of allowances under a cap and trade system, which WPTF supports, then it would be appropriate to use some of the auction revenue to alleviate impacts on low-income consumers.

Finally, WPTF also supports the recommendation in the Scoping Plan that California should implement its cap and trade program as part of the broader, regional Western Climate Initiative (WCI). The broader the scope and coverage of a GHG cap and trade system, the more opportunities there will be for entities to secure low-cost emission solutions and the lower the risk will be for emission leakage. While many details remain to be worked-out regarding the WCI system, the basic design recommendations released on September 23, 2008, are appropriate and consistent with California's interests and objectives under AB32. WPTF therefore endorses the WCI design recommendation as the model for California's cap and trade system but urges the state to work towards harmonization of rules across WCI partners to ensure that capped entities are treated fairly, and that no competitive advantage is created based on geographic location.

⁴ US Environmental Protection Agency, "An Evaluation of the South Coast Air Quality Management District's Regional Clean Air Incentives Market - Lessons in Environmental Markets and Innovation" November, 2002