



Air Resources Board



Matthew Rodriguez
Secretary for
Environmental Protection

Mary D. Nichols, Chairman
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Sacramento, California 95812 • www.arb.ca.gov

Edmund G. Brown Jr.
Governor

August 16, 2012

The Honorable Philip D. Moeller
Commissioner, Federal Energy Regulatory Commission
888 First Street NE, Suite 11-A
Washington, D.C. 20426

Dear Commissioner Moeller:

Thank you for your August 6, 2012 letter to Governor Brown regarding the prohibition of “resource shuffling” under California’s cap and trade program. We fully agree with you that the design and implementation of the program must be carried out in a way that does not negatively impact energy market supply and reliability in California or any other western states.

As I believe you know, our cap and trade program is designed to drive critically needed reductions in greenhouse gas emissions from major sources in our state, including the electricity sector. To ensure that we are truly successful in reducing emissions from the electricity sector, we must be vigilant in ensuring that the appropriate incentives exist to prevent gains in emission reductions that occur in California from being offset by increases in emissions elsewhere. For this reason, it is important to pay close attention to resource shuffling that could occur in the western energy grid and take the necessary steps to minimize it.

We also agree that for energy markets to work effectively, participants need a clear understanding of the rules to which they will be held accountable. Additional rulemaking, as opposed to case-by-case guidance, is appropriate in order to define the types of conduct or transactions that would trigger a finding of resource shuffling.

Until that process is complete, and while we are reviewing the trades that take place in the first 18 months of active allowance trading, it is appropriate to suspend enforcement of the provisions of the cap and trade regulation that require importers of electricity to annually attest that they have not engaged in resource shuffling during the previous year of a compliance period. During that time the Air Resources Board will work with other state energy agencies to closely monitor the emissions associated with imports of electricity into California and if necessary, make adjustments to ensure that emission reductions that occur in the electricity sector as a result of California’s cap and trade program are not offset by increases in emissions elsewhere.

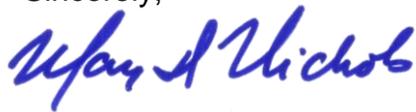
The energy challenge facing California is real. Every Californian needs to take immediate action to reduce energy consumption. For a list of simple ways you can reduce demand and cut your energy costs, see our website: <http://www.arb.ca.gov>.

California Environmental Protection Agency

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Thank you for your attention to this matter and please do not hesitate to contact me if you would like to follow up.

Sincerely,



Mary D. Nichols
Chairman

cc: Edmund G. Brown, Governor
Matthew Rodriguez, Secretary, California Environmental Protection Agency
Michael Peevey, President, California Public Utilities Commission
Robert Weisenmiller, Chair, California Energy Commission
Steve Berberich, President, California Independent System Operator