



January 6, 2010

Dr. Lawrence H. Goulder, Chair  
AB 32 Economic and Allocation Advisory Committee  
CALIFORNIA AIR RESOURCES BOARD  
P. O. Box 2815 Sacramento, CA 95812-2815

Dear Dr. Goulder:

The Modesto Irrigation District, Northern California Power Agency,<sup>1</sup> Pacific Gas & Electric Company, PacifiCorp,<sup>2</sup> Sacramento Municipal Utility District, Southern California Edison Company, and Southern California Public Power Authority<sup>3</sup> (“Joint Utilities”) fully support the greenhouse gas emission reduction goals of AB 32. The Joint Utilities embrace the challenge to transform the California economy by maximizing energy efficiency, expanding reliance on low and zero emission generation resources, and substituting clean electricity for carbon intensive transportation fuels.

Meeting the transformational challenge would impose a heavy and disproportionate burden on California’s electricity ratepayers without an allocation of cap-and-trade allowances or allowance value to electric utilities for the benefit of their customers. Additionally, the ratepayers would be unnecessarily exposed to potentially volatile allowance prices. The Joint Utilities urge the Economic and Allocation Advisory Committee (“EAAC”) to revise their January 2, 2010 draft report to recommend that a substantial portion of allowances or allowance value should be allocated to local distribution companies for the benefit of their customers and meeting AB 32 goals.

The electric sector is responsible for about 25 percent of California’s greenhouse gas emissions, but the Air Resources Board (“ARB”) Scoping Plan proposes that approximately 40 percent of the emission reductions shall be obtained through programmatic measures undertaken by electric utilities and their customers. Some of the complementary measures, particularly, the

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<sup>1</sup> The members of the Northern California Power Agency members include the cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, and Ukiah plus Bay Area Rapid Transit District, Port of Oakland, the Truckee Donner Public Utility District, and the Turlock Irrigation District. Associate members are the Plumas-Sierra Rural Electric Cooperative and the Placer County Water Agency.

<sup>2</sup> PacifiCorp is a regulated multi-jurisdictional electric utility serving customers in California, Idaho, Oregon, Utah, Washington, and Wyoming.

<sup>3</sup> The members of the Southern California Public Power Authority are Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, Los Angeles Department of Water and Power, Imperial Irrigation District, Pasadena, Riverside, and Vernon.

procurement of additional renewable energy resources, are projected to be expensive. The supporting investments in transmission, energy storage, and smart grid technology will also be expensive. The resulting increase in the price of electricity would be additional to and likely overshadow any carbon price signal as manifested in allowance prices.

While undertaking the more costly measures would significantly increase the overall cost of the GHG emission reduction program for electricity consumers, the electric sector's investment in these higher-cost measures will tend to reduce the equilibrium allowance price to the benefit of other cap-and-trade sectors.

The EAAC's draft report recognizes that a "significant share of allowance value" should be devoted to financing investments in emission reduction measures such as energy efficiency that are constrained by market barriers. The report should recognize that using allowance value to fund utility procurement of renewable energy resources would reduce the burden of the resulting above-market costs on ratepayers.

An allocation of allowances or allowance value to electric utilities for the benefit of electricity consumers to fund programmatic measures and associated investments would be equitable as required by AB 32, Cal. H&S Code §38562(b)(1), insofar as it would ameliorate the disproportionate burden that is placed upon electricity consumers in comparison to other sectors.

Additionally, an allocation of allowances or allowance value for the benefit of electricity consumers would facilitate the transition to a low carbon economy by smoothing the financial impact on the electricity consumers. A cap-and-trade program can result in excessively volatile prices and disruptive price shocks, especially in the early years. A California or Western Climate Initiative market would be inherently less liquid and more vulnerable to high and excessively volatile prices than a national or international market. Due to the low elasticity of their demand, electricity consumers are especially exposed to price shocks.

The Joint Utilities urge the EAAC to join Federal legislators, the California Public Utilities Commission, the California Energy Commission, and the many other public and private institutions and organizations that recognize that an allocation of allowances or allowance value to electric utilities is appropriate, given their unique circumstances. We also urge the EAAC to revisit its recommendations after completing its review of the ARB's economic analysis. Members of the Joint Utilities may individually submit comments addressing issues raised by the draft report.

Very truly yours,

THE JOINT UTILITIES

Dr. Lawrence H. Goulder, Chair

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cc: EAAC Members:

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