Department of Water and Power the City of Los Angeles

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Mr. Michael Gibbs
ICF Consulting
14724 Ventura Blvd. #1001
Sherman Oaks, CA 91403

Ms. Eileen Tutt
Special Advisor to the Secretary
California Environmental Protection Agency
1001 I Street
Sacramento, CA 95812

Dear Mr. Gibbs and Ms. Tutt:

Subject: Program Design Options for the Climate Action Team's Cap-and-Trade Subgroup

The Los Angeles Department of Water and Power (LADWP), which is the nation's largest municipal utility and a provider of both electric and water service, is committed to being an environmental leader. We have in place a wide range of energy efficiency programs and are rapidly expanding our portfolio of renewable energy resources. We strongly support the Governor's initiatives for addressing Climate Change, and we are an active member of the California Climate Action Registry.

Our comments follow the format of the Discussion Paper distributed by Cal EPA before the October 24, 2005 Workshop.

Scope

A state-level cap-and-trade program should:

- Be implemented fairly so that no sector of the economy bears a disproportionate share of the responsibility for emission reductions.
- Be defined to include all fossil fuels consumed within the state (stationary and mobile), which would allow all sectors to contribute to greenhouse gas reductions.
- Address emissions from imported power through cooperative greenhouse gas reduction programs with other states or through a national program.
    - The benefit to this approach would be that other states would participate in developing cost effective emission reduction programs on a regional basis. In addition, the individual states could accurately quantify emissions from their sources, rather than have California electric utilities use estimated emission factors that may not be accurate due to the variable nature of the energy mix in the western United States (i.e., natural gas, coal, hydropower).

Allowance Distribution

- Greenhouse gas allowances (i.e., "CO2 credits") should be distributed, not auctioned. This approach has proven successful with the federal Acid Rain Program for sulfur dioxide and the South Coast Air Quality Management District's NOX trading program known as RECLAIM.
- Allocations should be based on the average of several years of historical emissions as was done with both the Acid Rain and RECLAIM programs. We recommend that the average be based on the three years in a five-year period chosen by the program participant as being most representative of their operations.
- Compliance periods should be defined as individual years as was done with both the Acid Rain and RECLAIM programs. Reporting should be on annual basis without monthly and quarterly "tracking reports."
- Full trading should be allowed between different sectors.

Offsets

- Emission offsets should be allowed, which would encourage the expansion of energy efficiency programs to reduce electricity usage within California.
- All sectors should be allowed the opportunity to generate emission offsets.
- The California Climate Action Registry should be the agency responsible for developing protocols to measure the greenhouse gas emission reductions from offset projects and also for receiving and verifying emissions reductions.

Other Program Design Considerations

- Banking of unused credits should be allowed, as is done in the Acid Rain Program. This rewards companies that have curbed their greenhouse gas emissions and would help to reduce spikes in emission credit prices.
- Borrowing of credits from future years should be allowed. During drought years, when very little hydroelectric energy is available, additional generation from fossil fuels can be expected. Borrowing provides business with a means of smoothing out the resulting spike in greenhouse gas emissions and also helps to avoid sharp spikes in emission credit prices that might otherwise occur.
- The agency responsible for receiving and verifying greenhouse gas emissions should be the California Climate Action Registry, of which the LADWP is a Charter Member.
- With respect to environmental justice and impacts to local communities, two of the major greenhouse gases, NOX and methane, have the potential for localized health impacts (NOX is an EPA Criteria Pollutant and methane is a precursor to ozone, which is an EPA Criteria Pollutant). However, these pollutants are currently regulated by the EPA and the local air districts. In order to efficiently utilize

resources and avoid overlapping regulatory programs, the environmental justice design element for the cap and trade program should take into account the current regulatory structure provided for NOX and methane.

LADWP appreciates the Cap and Trade Subgroup and the Climate Action Team's consideration of these comments. We look forward to future discussions with you and your staff as this important debate progresses.

If you have any questions or would like to discuss these comments, please contact me at (213) 367-1981.

Sincerely,

Lillian Y. Kawasaki
Assistant General Manager -
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