

INDEPENDENT ENERGY PRODUCERS

October 27, 2009

Chairman Larry Goulder and Committee Members
Economic and Allocation Advisory Committee
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Dear Chair Goulder and Committee Members,

The Independent Energy Producers Association (“IEP”) appreciates the opportunity to provide comments to the Economic and Allocation Advisory Committee (“EAAC”). On September 8, 2009 we filed comments to the EAAC related to allowance allocation & use of allowance revenues. Here, we wish to reply to other parties’ comments regarding investment in disadvantaged communities.

Three options have been recommended to the EAAC related to the potential allocation of cap/trade revenues to support disadvantaged communities. Specifically, recommendations have been made as follows: (a) create a “community benefits fund” in which some fraction of the revenue from permit auctions are allocated to overburdened communities; (b) impose a co-pollutant surcharge, i.e. a levy on carbon permits in overburdened jurisdictions wherein the levy revenues are dedicated to community benefits in the same jurisdictions in which it is collected; and, (c) impose zonal trading systems, wherein the cap/trade design is such that “zones” are established to guarantee some minimum level of emissions reduction in high-priority locations where co-benefits are greatest.

In response, IEP reiterates its earlier recommendation to maximize the value of the revenues by re-allocating most, if not all, of the revenues to foster clean, relatively low emitting technologies needed to serve California’s electrical load and maintain grid reliability. Furthermore, do this in a manner that fosters, rather than undermines, a competitive market structure in California. If used in this manner, then the revenues derived from the cap/trade program will (a) foster clean, “green tech” as sought by the Governor and policymakers, (b) reduce the potential for direct GHG emissions attributed to the electric sector, and (c) reduce the co-pollutants relative to the status quo as new, cleaner generation resources are developed to serve California consumers and displace relatively higher emitting generation resources.

In response to the specific suggestions related to aiding disadvantaged communities, to the extent that the EAAC considers this set of recommendations, IEP believes that the best option among the three recommendations is the first option in which a fraction of the revenue from permit auctions are allocated to overburdened communities. We conclude that this approach is likely to have the least harmful effect on consumers and/or the effective implementation of a cap/trade program.

Furthermore, we recommend that the “community benefit fund” be applied in a manner that fosters the types of activities that will result in real reductions in GHG emissions, rather than resulting in maintenance of the status quo or, worse, an increase in global GHG emissions.

In highlighting the option for a community benefit fund, we note the following regarding the other recommendations:

- Imposing an additional “co-pollutant surcharge” will have negative, harmful impacts on consumers. Practically, the effect of this approach will be to shift AB 32 implementation costs yet higher for all California’s to the benefit of a relatively small, local area benefit. We urge against this outcome.
- Imposing a “zonal trading” model will undermine attempts to create a regional cap/trade environment. As a result, this approach will become a barrier to the attainment of a fully liquid and efficient cap/trade program, and it will have the concomitant effect of increasing costs to consumers of AB 32 implementation. We urge against this outcome as well.

In summary, IEP reiterates its recommendation that the revenues from any cap/trade program be employed to maximize the ability of the state to transform its electric sector so as to actually achieve AB 32 goals in a timely manner at least cost. This speaks for (a) re-allocating revenues to foster investment in relatively clean electric generation technologies and to do so without skewing a fully competitive model employed to serve consumers. Secondly, to the extent disadvantage communities are determined to require additional assistance, re-allocate a fraction of remaining revenues to disadvantaged communities as needed, rather than (a) unnecessarily increasing costs to all consumers and/or (b) undermining the design and implementation of an efficient and transparent market for the buying/selling of GHG allowances.

Respectfully,

A handwritten signature in black ink that reads "Steven Kelly". The signature is written in a cursive, slightly slanted style.

Steven Kelly
Policy Director