



Sierra Pacific™

January 7, 2010

Dr. Lawrence H. Goulder, Chairman
Economic and Allocation Advisory Committee
CALIFORNIA AIR RESOURCES BOARD
1001 I Street
Sacramento CA 95815
c/o: eaac@calepa.ca.gov

RE: January 2, 2010 EAAC Recommendations

Dear Dr. Goulder and EAAC Members:

This letter expresses Sierra Pacific Power Company's ("Sierra") support for the comments previously submitted by the Joint Utilities¹ in their January 6, 2010 letter to you regarding the January 2, 2010 draft report of the Economic and Allocation Advisory Committee ("EAAC").

Sierra Pacific Power Company ("Sierra") is multi-jurisdictional electric utility that provides regulated services to approximately 46,000 customers within a relatively small California service territory located in the mountainous Lake Tahoe region. The vast majority of Sierra's customers are located around Reno and other parts of northern Nevada. Sierra is the control area operator for its entire territory and is not part of the California ISO. Virtually all of Sierra's California customers' electricity requirements are served from company owned or contracted generating resources located within Nevada, consistent with resource planning requirements overseen by the Public Utilities Commission of Nevada.

Sierra operates its system on an integrated basis and strives to provide cost-effective service to all its California and Nevada customers. The company shares the concerns expressed by the Joint Utilities regarding the potential impact to customers should the CARB cap and trade program begin without a phasing-in of the auctioning of allowances. For Sierra, we are particularly concerned that the potential for volatile rate impacts during the start up of the cap and trade program could disproportionately harm our California customers. The Joint Utilities' letter highlights our primary concern:

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

¹ The Joint Utilities are Modesto Irrigation District, Northern California Power Agency, Pacific Gas & Electric Company, PacifiCorp, Sacramento Municipal Utility District, Southern California Edison Company, and Southern California Public Power Authority.

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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. (Joint Utility letter, page 2.)

Sierra supports CARB's efforts in the development of a cap and trade mechanism to achieve GHG emission reductions across all sectors on an economic basis. Ultimately, however, we believe that a program designed to operate at a national or international level would be significantly more preferable over a program that requires Sierra to burden its small California customer base with its full implementation costs. We hope that the EAAC will take these considerations into account and support an orderly phase-in for an allocation auctioning requirement.

Sincerely,

/s/

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