

COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY TO THE  
CALIFORNIA AIR RESOURCES BOARD ON INTERNATIONAL OFFSETS IN A  
CALIFORNIA CAP-AND-TRADE PROGRAM

MICHAEL D. MONTOYA  
CATHY A. KARLSTAD  
NANCY CHUNG ALLRED

Attorneys for  
SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue  
Post Office Box 800  
Rosemead, California 91770  
Telephone: 626-302-1096  
Facsimile: 626-302-1935  
E-mail: [Cathy.Karlstad@sce.com](mailto:Cathy.Karlstad@sce.com)

Dated: **September 11, 2009**

## I.

### INTRODUCTION

Southern California Edison Company (“SCE”) welcomes this opportunity to provide its comments on California Air Resource Board (“CARB”) staff’s workshop on “International Offsets in a California Cap-and-Trade Program,” presented on July 30, 2009. As discussed below, offsets are a vital part of California’s Assembly Bill (“AB”) 32 greenhouse gas (“GHG”) reduction program. AB 32 directs the CARB to design GHG emission reduction measures to meet statewide emission limits “in a manner that minimizes costs and maximizes benefits for California’s economy.”<sup>1</sup> Both domestic and international offsets are key tools in containing the costs of emissions abatement and the supply of such offsets should not be artificially constrained. Accordingly, as provided in the AB 32 Scoping Plan, there should be no geographic limits on offsets. Instead, the CARB should ensure that all offsets meet the high quality standards specified in AB 32. This will ensure that all emission reductions are real, permanent, verifiable, quantifiable, enforceable, and additional without arbitrarily limiting the cost-effective GHG reductions available to satisfy AB 32’s goals.

Furthermore, the CARB should develop both standardized and project-specific methodologies for approving offsets. These methodologies should include monitoring, reporting, and verification requirements. Standardized assessments may streamline the process but will likely not be applicable to all projects. Project-specific tests should also be available. Moreover, while sectoral crediting may be a long-term option for international offsets, sectoral crediting systems are not yet in place. The CARB should use existing international offsets at the outset of California’s cap-and-trade program to ensure an adequate supply of offsets and the ability of offsets to help contain costs.

---

<sup>1</sup> Cal. Health & Safety Code § 38501(h).

Finally, in order to ensure enforcement of domestic and international offsets and the environmental integrity of California's system, the CARB should utilize contractual agreements between offset providers and the CARB for enforcement of offsets. Such contractual arrangements will allow for the broad use of offsets and ensure that offset projects are enforceable through contractual provisions regarding, among other things, monitoring, reporting, and verification.

## II.

### **INTERNATIONAL OFFSETS CAN PLAY A CRUCIAL ROLE IN REDUCING GHG EMISSIONS IN A COST-EFFECTIVE MANNER**

As SCE has stated in prior comments, real, permanent, verifiable, quantifiable, enforceable, and additional offsets can play a fundamental part in containing costs for California businesses and consumers and helping to keep the State on the long-term emission reduction path envisioned by AB 32 at the lowest overall cost to California's economy. The cost containment benefits of offsets to California businesses and consumers are especially important given the downturn in the State and national economies and the possibility that the costs of the AB 32 GHG reduction program may be significantly higher than current estimates.

SCE concurs with the AB 32 Scoping Plan that no geographic restrictions should be applied to define the eligibility of offsets. International offsets should be allowed. Given that carbon dioxide (and other GHGs) are persistent and mix rapidly in the global atmosphere, a reduction in GHG anywhere in the world will serve to reduce the overall impact of global warming. Moreover, international offsets will increase the supply of cost-effective offset opportunities and thus enhance the benefits of offsets as a cost containment measure.<sup>2</sup> Indeed, the United States Environmental Protection Agency's ("EPA's") economic analysis of the American Clean Energy and Security Act of 2009 (H.R. 2454) currently pending in the U.S. Congress concluded that offsets have a strong impact on cost containment and that allowance

---

<sup>2</sup> See July 30, 2009 Workshop Presentation at 8.

prices would increase 89 percent without international offsets.<sup>3</sup> International offsets also have other benefits including fostering policy change in the developing world, encouraging the spread of clean, low-carbon technologies outside of California, reducing emissions related to imported commodities, and exploring sectoral approaches to reduce competitiveness and leakage concerns in carbon-intensive sectors.<sup>4</sup>

SCE agrees with the AB 32 Scoping Plan that all offsets (whether international or domestic) must meet high quality standards as specified in AB 32. Accepting approved offset credits from other jurisdictions must not compromise the integrity of the GHG emission reductions undertaken by entities within California. Accordingly, SCE supports testing outside offsets against AB 32's quality criteria that offsets must be real, permanent, verifiable, quantifiable, enforceable, and additional. Offsets from an approved jurisdiction should not be subject to additional restrictions beyond those required by AB 32 for offsets within California. Once AB 32's offset criteria are defined by the CARB, they should be applied uniformly without respect to the geographic location of the offset. Otherwise, there is a risk of arbitrary implementation, which would discourage the state-to-state and nation-to-nation cooperation necessary for progress in reducing global warming.

### III.

#### **SCE SUPPORTS STANDARDIZED ASSESSMENTS FOR APPROVING OFFSETS AS WELL AS PROJECT-SPECIFIC TESTS**

The CARB should develop offset methodologies that focus on standardized assessments for approving offsets and also allow for project-specific tests. Standardized protocols and assessments should streamline the process by which qualified offsets are made available. At the same time, it is essential to provide a process for specific projects to be considered and approved. During the assessment and review process, project-specific monitoring, reporting, and

---

<sup>3</sup> EPA Analysis of the American Clean Energy and Security Act of 2009 H.R. 2454 in the 111th Congress at 3 (June 23, 2009) (available at <http://www.epa.gov/climatechange/economics/economicanalyses.html>).

<sup>4</sup> See July 30, 2009 Workshop Presentation at 8.

verification requirements should be included.<sup>5</sup> The CARB cannot anticipate the market response to developing offsets that offer the lowest cost, earliest availability, and highest probability of success. Offset developers should be afforded the opportunity to make that determination, subject to CARB review and approval of the project in question.

The same quality criteria should be applied to all offsets. In lieu of geographical restrictions or special tests for international offsets, the CARB should test all offsets against specific quality criteria, particularly the CARB's proposed additionality criteria. If a provider can demonstrate that a high-quality offset would not have otherwise occurred but for the action of the offset provider, the CARB should validate the offset. The CARB should examine both standardized offset proposals and specific projects to determine whether the GHG reduction in the jurisdiction in which the offset is proposed would otherwise have occurred rather than categorically ruling out such reduction opportunities.

At the July 30 workshop, CARB staff discussed whether the CARB should accept project-based offsets, accept sectoral crediting only, or a combination of the two.<sup>6</sup> Sectoral crediting may be a long-term option. However, SCE shares CARB staff's concern that sectoral crediting will not provide an early supply of offsets when the California cap-and-trade program is scheduled to begin in 2012.<sup>7</sup> As staff recognizes, sectoral crediting systems have not yet been implemented. Agreements with developing countries require development, design of offset programs need preparation, and candidate sectors must be evaluated. There are complicated issues to be addressed and careful review by the CARB will be required. In particular, any sectoral crediting program will need provisions for emissions monitoring, reporting, and verification to ensure enforcement of international offsets. These provisions must be analogous to California's standards and requirements. Additionally, the agency administering the outside system must have strong mechanisms available to enforce compliance with the offset program.

---

<sup>5</sup> CARB staff discussed this issue in the May 21, 2009 workshop on "Reviewing and Approving Offsets in a Cap-and-Trade Program."

<sup>6</sup> July 30, 2009 Workshop Presentation at 12.

<sup>7</sup> *See id.* at 21-23.

SCE supports the use of existing international offsets to provide a supply of offsets at the beginning of California's program. Ensuring a supply of offsets during the first compliance period in California's cap-and-trade program is crucial as offsets are going to help contain the costs of GHG reduction in California.

#### IV.

#### **THE CARB SHOULD UTILIZE CONTRACTUAL AGREEMENTS WITH OFFSET PROVIDERS AS AN ENFORCEMENT MECHANISM**

Enforcement of offset projects is crucial in order to provide accountability and confidence in compliance offsets. For projects approved through standardized assessments or case-by-case review, SCE believes that the use of contractual agreements between the offset provider and the CARB is the most logical and direct course to address ownership rights and implementation responsibilities in the offset system (whether the offset project is in California, another state, or another country).

An offset provider would legally contract with vendors or other project-specific entities, giving the provider legal recourse for compelling performance. The offset provider would then contract with the CARB at the time of offset validation to meet the terms of validation. This contract between the offset provider and the CARB would include requirements for monitoring, reporting, and verification and other necessary provisions regarding the offset project. Such an approach will increase the use of offsets in the system while at the same time ensuring that emission reductions from offset projects are enforceable, which is in the interest of all parties. Allowing contractual arrangements also permits multiple-party ownership, the sale of offset property rights, and legal enforcement of party obligations.

V.

CONCLUSION

SCE appreciates this opportunity to comment on these issues. SCE urges CARB to adopt regulations which are in line with the principles SCE sets forth herein.

Respectfully submitted,

MICHAEL D. MONTOYA  
CATHY A. KARLSTAD  
NANCY CHUNG ALLRED

/s/ Cathy A. Karlstad

---

By: Cathy A. Karlstad

Attorneys for  
SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue  
Post Office Box 800  
Rosemead, California 91770  
Telephone: 626-302-1096  
Facsimile: 626-302-1935  
E-mail: Cathy.Karlstad@sce.com

September 11, 2009