



April 13, 2012

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Subject: Comments of Environmental Defense Fund and the Natural Resources Defense Council on Amendments to the Cap-and-Trade Regulation for Linkage.

Dear Mr. Cliff and Ms. Sahota:

Please accept these comments on the discussion draft and April 9, 2012 workshop held to discuss the proposed amendments to the cap-and-trade regulation for linkage.

Environmental Defense Fund (EDF) and the Natural Resources Defense Council (NRDC) appreciate that even as CARB begins the process of considering linking¹ to Quebec, CARB is also continuing to learn from other emissions trading programs and listen to the market monitor to improve and strengthen the program. As noted in the April 9, 2012, workshop on these amendments the proposed know-your-customer provisions are partially in response to lessons learned from the EU ETS system. Similarly, the proposed changes regarding holding limits for future vintage allowances [moving from entire pool to each year; see §95920] and procedures on auction registration and revocation reflect CARB's continued willingness to proactively take steps to ensure the market functions as designed.

¹ In this letter we use the terms "linking" or "linkage" to mean that compliance instruments issued by California and another jurisdiction are fungible because the responsible governmental authorities in each jurisdiction have independently evaluated the stringency, quality, and overall design of the external program; concluded that the external program is of comparable environmental integrity to the home jurisdiction's program; and determined that it is in the home jurisdiction's best interest to recognize compliance instruments from the external program.

EDF and NRDC support these changes in the regulation and take the position that these provisions will protect the integrity of the program and any incidental burdens they impose are justified. EDF and NRDC also appreciate that CARB is collecting information from the market monitor and is taking specific action based on this information to strengthen the program overall. The decision to hold a simulated auction in August and to hold the first allowance auction in November is a responsible decision by CARB that will help ensure that all elements of the auction program are in place, fully coordinated, and tested without resulting in any delay of the full launch of the program.

In considering whether to link California's program with Quebec's, the primary question and the ultimate driver behind CARB's action should be what is best for the integrity of California's cap-and-trade program and for California in its efforts to protect its citizens from the threats of climate change. While we await the final proposed regulatory language and full rulemaking package, we are encouraged by CARB's direction as evidenced in the discussion draft and workshop to remain focused on maintaining the high standards of California's program and that the iterative process of harmonizing certain provisions with Quebec's has been undertaken with any eye towards clarifying and strengthening those provisions. As we noted in our initial comments, EDF and NRDC see many potential benefits to California from linking into a broader market, including providing additional flexibility and cost-effective reduction opportunities for regulated entities and building broader support for actions to combat climate change. We look forward to receiving further information from the documents that CARB will release when the formal comment period begins such as the initial statement of reasons, the economic impacts analysis and the CEQA analysis.

Thank you for your consideration of these comments on the initial discussion draft of the proposed amendments to the cap-and-trade regulation for linkage. We look forward to working with CARB and providing further comments as this rulemaking proceeds.

If you have any questions or concerns regarding the comments made in this letter, please contact Erica Morehouse at emorehouse@edf.org; (916) 492-4680.

Sincerely,

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