



Western States Petroleum Association
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Catherine H. Reheis-Boyd
President

July 13, 2010

Mr. Kevin Kennedy, Chief
Assistant Executive Officer
Office of Climate Change
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Subject: **WSPA Comments on Cost Containment – June 22, 2010 Public Meeting**

Dear Mr. Kennedy,

The Western States Petroleum Association (WSPA) is pleased to submit the following comments regarding “cost containment” for AB 32 implementation. WSPA is a non-profit trade association representing twenty-eight companies that explore for, produce, refine, transport and market petroleum, petroleum products and natural gas in six western states – California, Arizona, Nevada, Oregon, Washington and Hawaii.

WSPA member companies own and operate various types of facilities (e.g., oil and gas production properties, refineries, marketing terminals, pipelines, retail gasoline outlets, etc.) that will all be impacted by the implementation of AB 32.

At the June 22, 2010 Public Meeting you and CARB staff discussed Cost Containment Options in a California Cap-and-Trade Program. As we have said in all our correspondence since AB 32 became law, WSPA is committed to work constructively with CARB to achieve the AB 32 GHG emissions reduction goals as efficiently and as cost-effectively as possible.

Offsets are Cost Containment

As a prelude to the discussion of potential options, CARB staff described a list of cost containment “objectives” and “principles” that staff would be using to evaluate cost containment options. Before a discussion of the proposed options, we would like to focus on those objectives and principles.

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Our May 8, 2008 comment letter (attached) generally outlines our principles and objectives for cost containment in a cap-and-trade program. WSPA believes that a robust offsets program is the one cost containment mechanism that meets all of the CARB June 22, 2010 listed objectives:

- Offsets will mitigate the risk that “unacceptably high costs are incurred”
- Appropriate offset protocols will lead to a transparent market
- Offsets will not compromise the environmental integrity of the program
- Offsets can be the mechanism to link to other rigorous cap-and-trade programs
- Offsets will not limit price discovery; in fact, offsets will lead to price discovery

WSPA urges that you include a robust offsets program as part of any cap-and-trade program to implement AB 32.

We understand that some in the broader NGO community may not favor offsets as a cost containment mechanism (see the Nicholas Institute meeting summary). However, we (as do some of the NGO stakeholders) believe that the cost containment potential of offsets when combined with their environmental integrity benefits (emission reductions do occur while leakage is minimized), greatly outweighs any co-pollutant benefits from restricting offsets and mandating that emissions occur onsite.

In California, we have very mature and very effective state and local programs that address priority air pollutants and toxic air contaminants. CARB staff working on the Health Impact Analysis has made presentations to the Department of Public Health, to the Climate Action Team and to the Environmental Justice Advisory Committee.

These presentations indicate that CARB’s case study of Wilmington (with potentially 17 cap-and-trade facilities) shows that because of the existing and expected emission reductions under the existing air quality programs, the expected priority pollutant and air toxic emission reductions from all 17 facilities achieving their cap-and-trade GHG emission reduction commitments via offsets will likely be the same as if all the GHG emissions reductions occur onsite. We believe a robust offset program can be an effective cost containment element that meets all your goals, objectives and principles.

However, if there is to be a limit on the use of offsets, WSPA believes that providing a mechanism to allow for the expanded use of offsets when a price trigger is reached is a very desirable cost containment option. We urge that these design criteria be clearly established when the cap-and-trade regulation is adopted.

Other Cost Containment Options

Cost-containment mechanisms are essential elements of a cap-and-trade program. It is widely recognized that there is substantial uncertainty about the cost of reducing greenhouse gas emissions to meet ambitious emissions targets. Moreover, in the short-run, unexpected developments could cause significant allowance price spikes, with attendant costs, much as can be observed in response to unanticipated developments in oil and electricity markets.

It is widely recognized that there are relatively few low-cost means of *quickly* reducing emissions in response to unexpected circumstances. Therefore, in the same way that unexpected developments can cause short-run price spikes in electricity and oil markets, unexpected developments that cause California to fall short of its emissions targets could cause short-term allowance price spikes.

Length of compliance period, banking, borrowing and offsets are important elements of a cap-and-trade program. They offer a degree of protection against cost uncertainty. We urge CARB to look at these program design elements to achieve important cost containment goals.

WSPA supports multi-year compliance periods, unlimited banking, limited borrowing and the acceptance of offsets without geographic or quantitative limitations. These features, teamed with other cost containment mechanisms, can be a means of providing added and needed cost protection.

At the June 22, Public Meeting, CARB discussed creation of a reserve pool of allowances that could be released when certain price triggers are reached. WSPA is still evaluating a “reserve” as a means to achieve cost containment. WSPA wants to consider all the points outlined in slide 15 of the June 22 presentation as we move forward.

WSPA is also evaluating safety valued options as possible cost containment mechanisms. In the near future, WSPA will provide added comments on reserve and safety value options.

Transition

Allowance price uncertainty may be a significant factor in program implementation, especially in the early years of the program. Therefore, serious consideration should be given to a “gentle transition” into the program. WSPA applauds CARB’s intent to provide “transition” assistance as described in the May 17, 2010 Workshop on Cap-and-Trade and Leakage.

Linking

With respect to linkage to other programs, WSPA supports broad linkage to appropriate regional, federal and international market programs and offsets – but in a manner that does not compromise California’s ability to access offsets in the linking programs.

Thank you for considering our comments. If there are any questions, please do not hesitate to contact me at (916) 498-7752.

Sincerely,

A handwritten signature in blue ink that reads "Cathleen A. Kelly-Boyd". The signature is fluid and cursive, with the first name being the most prominent.