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Ms. Lucille Van Ommering
California Air Resources Board
Office of Climate Change
1001 I Street
Sacramento, CA 95814

**RE: June 22, 2010 Workshop on Offsets in a California
Cap-and-Trade Program**

Dear Ms. Van Ommering:

San Diego Gas and Electric Company (SDG&E) and Southern California Gas Company (SoCalGas) appreciate the opportunity to submit this written input on ARB offsets policies discussed at the June 22, 2010 workshop. SDG&E and SoCalGas strongly support policies that would assure a liquid market develops for offsets and would promote the development of biomethane. Two aspects essential to enabling a liquid market are 1) linking to other offset programs to assure an adequate supply of offsets for compliance entities and 2) supplier/ARB responsibility for possible offset reversals.

Linking to Other Offset Programs

One key to developing an adequate supply of offsets is linking to other offset programs. With only four offset protocols proposed for approval in 2010 and another handful in 2011 the process to develop ARB protocols seems slow. Linking to other offset programs could expand the pool of offsets by an order of magnitude.

SDG&E and SoCalGas fully support allowing offsets developed using existing Climate Action Reserve (CAR) protocols including the organic waste digestion and landfill protocols as early action

measures. Offsets based on the CAR protocols, described as the “gold standard of offset protocols” in the workshop, should be allowed for the period until ARB approves its own protocols covering similar activities.

SDG&E and SoCalGas also support other linkages including those with WCI-linked states and provinces and availability of international offsets associated with reducing emissions from deforestation (RED) and the some offset types from the Clean Development Mechanism (CDM).¹ It was indicated at the workshop that these sources can be Board-approved at the outset of the cap-and-trade program and likely could deliver offsets within the first compliance period.

Responsibility for Offset Credits

ARB should strive to make offsets a commodity that is easy for buyers to use to comply with cap-and-trade obligations. To create liquidity, all offsets should be equal to 1 tonne of CO₂ equivalent reduction; the metric should not vary by the type of offset.

Buyers, whose main business expertise is not in the nuances of offset protocols, should not have to do a separate “due diligence” for offsets approved and verified according to ARB protocols or purchased from ARB-approved linked offset program protocols. Purchasers are not in the business of monitoring and verification and will likely not be able to assure conditions that lead to potential for reversal. ARB can ensure offsets are of the same quality and ensure against loss due to reversal with fiduciary mechanisms or buffer pools. If an offset meets ARB’s real, verifiable, quantifiable, permanent, and enforceable criteria, then offset buyers should be able to have confidence the offsets they acquire can be used to meet their compliance needs. Compliance entities that buy from a pool of ARB-approved offsets should be without the risks of a retroactive change to quantification methodology or other conditions where offsets could later be determined deficient.

Similarly, for offsets made available from linked programs, if ARB is administratively unable to place the burden on suppliers, ARB should ensure that fiduciary mechanisms or buffer pools exist at

¹ ARB should consider temporary availability of international project-based offsets at the outset of the cap-and-trade program (e.g., a limited amount of CERs issued under the CDM) which can be phased out over time as a sufficient pool of sector-based offsets become available as well as offsets from least developed countries and black carbon as mention in the workshop presentation.

the time of purchase to assure that potential future reversals are covered. For linked offsets an upfront payment into a buffer pool is preferred to subjecting compliance entities to ARB penalties for non-compliance because purchased offsets from an ARB approved linked program were later reversed.

Biomethane Offsets

Offset protocols to support biomethane production should be an ARB priority. Verifiable and additional reductions of methane emissions to the atmosphere that result from projects that capture or produce biogas for beneficial use in California may become a missed opportunity without the financial incentives provided by offsets.² Methane is 21 times more powerful than CO₂ as a GHG pollutant. The process of upgrading biogas to biomethane can also reduce criteria pollutants, depending on the facility. SoCalGas and SDG&E are encouraged that ARB is developing a livestock offset protocol in 2010 and considering a wastewater protocol in 2011. In addition, ARB should consider the added reductions from the conversion of biogas to biomethane.

Other Offset Policies

To facilitate a liquid market for offsets several other policies should be implemented by ARB.

1. Offset values should be fixed for the duration of the renewal period. Any change of the offset quantification methodology should be applied only on a forward-looking basis after an ARB-approved change. Such a change should not alter the value of earlier issued offsets. Likewise, any change in additionality should become effective only at the time of renewal of the offset.
2. Unlimited renewals should be allowed as long as the quantification and additionality are re-evaluated for each renewal.
3. The definition of permanence should not preclude projects on privately held lands.
4. In order to maximize CO₂e emission reductions ARB should consider ways to ensure that entities that are regulated for a portion of their operations be allowed to generate offsets in other aspects of their operations. For example, for natural gas distribution companies, where

² The GHG reductions should be additional to those associated with displacement of CO₂ emissions from fossil fuels that result from such projects.

the point of compliance is the combustion source, should be able to generate offsets from achieving reductions in natural gas transmission fugitive emissions.

Thank you for the opportunity to comment.

Sincerely,

A handwritten signature in cursive script that reads "Amara Rado". The signature is written in black ink and is positioned to the left of the rest of the page.