COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY TO THE CALIFORNIA AIR RESOURCES BOARD ON REDUCING EMISSIONS FROM DEFORESTATION AND DEGRADATION (REDD)

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I.

INTRODUCTION

Southern California Edison Company ("SCE") appreciates this opportunity to submit comments to the California Air Resources Board ("CARB") on its recent July 30, 2010 workshop discussing Sector-Based Crediting and Subnational Reducing Emissions from Deforestation and Degradation ("July 30 Workshop"). SCE welcomes the chance to work together with CARB staff to develop sound offset rules to ensure cost-effective carbon reductions.

First, SCE seeks clarification of questions raised at the July 30 Workshop regarding the timing and issuance of offsets. Next, SCE provides some additional comments regarding offset protocols, and recommends that CARB focus on timely and feasible projects that will provide sufficient offset credits for the early compliance periods of the cap-and-trade program. SCE also cautions that the focus on Reducing Emission from Deforestation and Degradation ("REDD") may not provide timely offsets for CARB's cap-and-trade program. Finally, SCE offers some comments and suggestions regarding CARB's presentation on sector-based crediting and REDD as outlined by staff at the July 30 Workshop.

II.

CARB SHOULD CLARIFY WHETHER ALL OFFSET CERTIFICATES WILL BE ISSUED ONLY AFTER THE GHG REDUCTION FROM THE UNDERLYING OFFSET PROJECT HAS ALREADY TAKEN PLACE AND HAS BEEN VERIFIED

During the July 30 Workshop, CARB staff noted verbally that a REDD offset certificate would only be issued *ex post*, or after the carbon value of the offset has already occurred through reduction of greenhouse gas ("GHG") emissions or sequestration of GHG emissions, and after it has been verified. CARB's November Preliminary Draft Regulation ("PDR") on the cap-and-trade program similarly states that an offset credit will be issued only if CARB has already registered the offset project, "and the relevant GHG emission reductions or avoidances, or GHG sequestration have already occurred and been verified during the relevant offset project crediting period."[1] While this language suggests that all offset certificates will be issued *ex post*, it has not been clear from staff presentations whether or not this is the case. SCE respectfully requests that CARB confirm whether it plans to certify offsets *ex post* only for REDD offsets, some subset of offsets, or whether that will be the case for all offsets, as the timing for issuance of offset certificates has significant implications for offset liability.

III.

CARB SHOULD PRIMARILY PURSUE VIABLE AND FEASIBLE OFFSET PROTOCOLS, OFFSETS PROJECTS AND SECTOR-BASED CREDITING CONCEPTS

Under Assembly Bill ("AB") 32, California must reduce its GHG emissions to 1990 levels by the end of the year 2020. CARB's AB 32 Scoping Plan calls for a cap-and-trade program as one of the key elements for achieving the emissions reductions mandated by AB 32. However, CARB, as the lead agency for implementing the AB 32 Scoping Plan, has yet to present compliance scenario studies as projected.[2] Therefore, it is currently unclear whether and how the cap-and-trade program and all of the complementary measures outlined in AB 32 (Renewables Portfolio Standard, energy efficiency measures, etc) will yield the emissions reductions estimated in the Scoping Plan.

Without a clear vision of how emissions can or will be reduced, CARB must create sufficient safeguards to ensure that it does not create a market mechanism that results in unexpected surges in allowance prices to the detriment of California consumers. CARB has recognized the importance of using offsets to reduce the cost of compliance in its recent *Update Regarding the Proposed Offset Component of the California Cap-and-Trade Program*, released

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1 California Air Resources Board, *November 2009 Preliminary Draft Regulation* (PDR) at 74, § 96330(a)(A).

2 California Air Resources Board, *Greenhouse Gas Cap-and-Trade Regulation Status Update*, May 17, 2010, at 10, *available at* http://www.arb.ca.gov/cc/capandtrade/meetings/051710/presentation.pdf.

July 29, 2010.[3] SCE strongly agrees and reiterates its support for expanding the use of offsets as a clear path to emissions reductions at a reasonable cost. An early offset program is a key element of successful implementation of the overall cap-and-trade program. Offset credits are an important safeguard for bringing the necessary price discovery discipline in the GHG allowances market, and will play a critical role in enabling California compliance entities to meet the emissions reductions target of the cap-and-trade program while minimizing the cost impact to California customers. While SCE strongly supports CARB's willingness to allow offset credits as compliance instruments in the cap-and-trade program, CARB must ensure that the offset credits are readily available to California compliance entities and liquidly traded as part of the cap-and-trade program.

As articulated in the PDR, CARB will not issue an offset credit unless the offset meets stringent requirements. First, the offset credit must represent a reduction or avoidance of GHG emissions that is real, additional, quantifiable, permanent, verifiable, and enforceable.[4] As noted above, the PDR suggests that an offset credit will only be issued after the Executive Officer determines that a ton of CO_2e has been reduced, avoided, or sequestered during the period covered by a verification statement.[5] The PDR also describes a variety of requirements for creating offset credits, including Offset Quantification, Offset Project Types, Offset Project Operators, Registration of Offset Projects, Offset Crediting Periods, and Monitoring, Reporting, Record Retention, and Verification for Offset Projects.[6] The sheer number of requirements suggests that the issuance of offset credits for use as compliance instruments will be a deliberate and lengthy process.

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3 California Air Resources Board, *Update Regarding the Proposed Offset Component of the California Cap-and-Trade Program*, July 29, 2010, pp. 1-2, *available at* http://www.arb.ca.gov/cc/capandtrade/meetings/062210/offset_program_update.pdf ("Because offsets can cost less than some potential emission reductions in capped sources they can reduce the cost of achieving the overall emissions target").

4 PDR at 61.

5 PDR at 74; SCE again requests that CARB clarify whether this is true for all offset credits to be issued.

6 PDR at 60-87.

If CARB is willing to allow offset credits as compliance instruments in the cap-and-trade program, CARB must also ensure that the offset credits are liquid and readily available to California compliance entities. SCE is concerned that CARB may be too heavily focused on the implementation of REDD offsets, which are long-term by nature. For example, in the July 30 Workshop, CARB staff noted that they do not expect sector-based offsets to become available in the market until 2015, near the end of the first compliance period. As discussed in more detail below, even this target will be very difficult to achieve. CARB should therefore concentrate on more promising and viable offset protocols, offset projects, and sector-based crediting. In doing so, CARB should focus on whether the offset activity can lead to tradable offset credits in time for compliance entities to utilize them as early as the first compliance period. The need for offset credits will likely be the greatest in the early years when other Scoping Plan elements such as the renewable procurement standards or the additional combined heat and power projects may not yet be yielding the desired amount of GHG reductions.[7]

Accordingly, SCE supports the creation of an immediate supply of offsets through multiple pathways. Although CARB has proposed a variety of pathways, such as linkages, original protocols, and sector-based methods, SCE is concerned about the lack of sufficient progress in some of these areas. For those compliance entities in the electricity sector, it is essential that offsets be immediately available when the cap-and-trade program becomes operational. Because the generating capital and contracts that characterize the electricity industry are very long-term in nature, the sector will be looking to indirect emissions reductions for the bulk of its early cap-and-trade emission reductions.

Specifically, CARB should expedite linkages to existing protocols and programs such as the Clean Development Mechanism, Climate Action Reserve protocols, and trading systems such as the Regional Greenhouse Gas Initiative and the Western Climate Initiative. CARB must focus

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[7] The other Scoping Plan elements may not yield the desired results in early years for many reasons, such as unavailability of transmission to bring renewable energy to load centers, as well as delays caused by the recent economic downturn in creating sufficient industrial capacity that can support combined heat and power installations.

on solving the implementation challenges that may arise in order to ensure early and plentiful availability of offsets through linkages. Finally, SCE recommends that CARB should finalize standards for its protocols that are currently being developed, such as those dealing with forestry, manure management digesters, urban forestry, and ozone-depleting compounds.

IV.

REDD MAY NOT PROVIDE A SUFFICIENT NUMBER OF TIMELY OFFSETS FOR THE CALIFORNIA CAP-AND-TRADE PROGRAM

SCE appreciates CARB's efforts to pursue sector-based approaches to offset crediting. Pursuing a variety of offset crediting approaches is necessary to develop a sufficient number of offsets that will be available for use in the cap-and-trade program. However, as briefly noted above, SCE has concerns regarding the practicality of REDD offsets and whether they will be available for use as early as 2015, as indicated by CARB staff, or even at all during the compliance periods prior to 2020. In its July 30 Workshop, CARB properly acknowledged the complexities involved in the creation of REDD offset credits. These complexities include: overall infrastructure, permanence of offsets (including reversals and assignment of liability), measurability, monitoring, reporting, and verification ("MRV") and accounting within the system, establishing social and environmental safeguards, and allowing for differences nationally and subnationally.[8] In addition, the REDD program is particularly susceptible to enforcement and liability issues in a sector that is highly prone to project reversal or failure to perform as expected.

CARB staff has indicated that they will continue working with the Governor's Climate and Forest Task Force during 2011 to develop program criteria for a REDD program, and will potentially evaluate specific REDD programs during 2012 and 2013.[9] However, CARB's

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[8] CARB Staff Presentation, "Sector-Based Crediting and Subnational Reducing Emissions from Deforestation and Degradation (REDD)" (July 30 Workshop Presentation), July 30, 2010, at 25 (*available at* http://www.arb.ca.gov/cc/capandtrade/meetings/073010/arbpresentaiton.pdf).

[9] *Id.* at 15.

discussion on program elements during the July 30 Workshop suggests that there are many steps involved before any offset credits will be created from REDD. These steps include setting the reference level, creating a crediting baseline, developing a trajectory and target for host partner reductions, creating the necessary infrastructure to implement the nesting framework, and ensuring that the reductions below the crediting baseline are permanent, measurable and verifiable. Several of these steps will likely require collaboration and detailed agreements with host countries, regions or states, and between host countries and sectoral emissions reduction projects that contribute to the reductions from the agreed-upon reference level. Further, each of these steps has detailed requirements of its own. For example, CARB has appropriately proposed creating social and environmental safeguards, community level benefit sharing, free prior informed consent, as well as robust dispute resolution and public participation processes, all allowing for national and subnational differences.

It is not clear whether all of these procedures can be implemented quickly enough for the Executive Director to issue offset credits from REDD projects for use in the California cap-and-trade program. SCE requests that the CARB staff give additional details regarding their proposed timeline and explain whether any offset credits from REDD projects are likely to be available for use in the 2012-2020 cap-and-trade compliance demonstrations. For example, a chart presented by CARB staff during the July 30 Workshop[10] incorrectly implies that the reductions from the Reference Level – which will likely not be established until after CARB evaluates specific REDD programs in 2012 and 2013 – would actually begin as early as 2010. CARB staff should recreate this chart to capture a more likely timeline for the different steps and requirements and show specifically when offset credits may be issued from the REDD projects.

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[10] July 30 Workshop Presentation at 23.

V.

COMMENTS ON SPECIFIC WORKSHOP QUESTIONS

At the July 30 Workshop, CARB staff asked stakeholders to comment on whether credits coming from a sector-based crediting program should be limited within the offset portfolio.[11] SCE opposes any sector-specific limits in creating or using offset credits. Given that CARB has stated that it will issue offset credits only after actual reductions in emissions have taken place and been verified, there is no need to further differentiate the origin of the offset credit. CARB should develop offset protocols that enable real, additional, and verifiable emissions reductions at the lowest possible cost to California, without regard to a specific technology or a specific economic sector. Creating sector-specific restrictions would result in different levels of compliance eligibility for different offsets, based on the sector or the technology. CARB should not follow any procedure that results in preferences for one sector or technology over another. If CARB were to restrict the eligibility of emissions reductions from REDD or any other offset creation protocol or process, it would devalue that specific approach relative to other methods. Creating this unnecessary differentiation among tradable offset credits in the cap-and-trade market restricts the development of offsets crucial to containing costs for compliance entities.

Another discussion question asked where the crediting baseline should be set relative to the reference level baseline.[12] SCE believes that CARB must set the crediting baseline in an achievable manner. If the crediting baseline is set too far below the reference baseline, it is likely that the project will not yield offset credits in time to support California's 2012-2020 cap-and-trade program.

Finally, CARB staff sought comment on how much host states should be expected to reduce emissions before California entities can use credits for compliance.[13] In order to create the proper incentives for host states to participate in a sectoral crediting structure, SCE

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[11] July 30 Workshop Presentation at 27.
[12] July 30 Workshop Presentation at 27.
[13] July 30 Workshop Presentation at 27.

recommends that CARB adopt a low initial reduction target. Given that participation by host states in sectoral crediting structures is voluntary, a very high initial reduction target will dissuade host states from participating at all. SCE supports a sector-based crediting structure that quickly promotes emissions reductions by designating all emissions reductions beyond business-as-usual as emissions offsets. As the program matures, it would then be more reasonable for host states to consider increasing the sectoral targets.

VI.
CONCLUSION

SCE appreciates this opportunity to comment on the July 30 Workshop. SCE looks forward to continue its work with CARB staff on developing appropriate rules and regulation for the cap-and-trade program and offset protocols, and recommends that CARB adopt rules and regulations in accordance with the principles outlined above.

Respectfully submitted,

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