



Air Resources Board

Mary D. Nichols, Chairman

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Edmund G. Brown Jr.
Governor

Matthew Rodriquez
Secretary for
Environmental Protection

November 1, 2013

Honorable Edmund G. Brown Jr.
Office of the Governor
State Capitol, First Floor
Sacramento, California 95814

Dear Governor Brown:

On February 22, 2013, the California Air Resources Board (CARB) requested that you make findings, as required under Senate Bill 1018 (Government Code section 12894(f)), relating to the proposed linkage of California's Cap-and-Trade Program (California Program) with Québec's Cap-and-Trade Program (Québec Program). As noted in that request, in the Global Warming Solutions Act of 2006, the Legislature directed CARB to facilitate the development of integrated regional, national, and international greenhouse gas reduction programs. Linking California and Québec's Programs will demonstrate the ability of two jurisdictions to work together to develop and implement cost-effective regional greenhouse gas emission reduction programs. In addition, linking the programs will provide a framework for additional partners to join, and demonstrate a workable template for urgently needed climate action. Thus, it is important and timely to demonstrate that linked programs offer a path forward that can include additional states and provinces.

On April 8, 2013, you released findings based on the review of materials in the administrative record, comments received from outside parties, and the advice provided by Attorney General Harris. It was found that the four requirements of Government Code section 12894(f) have been satisfied. Following receipt of the findings, CARB amended the California Cap-and-Trade Regulation to link the California program with the Québec program as of January 1, 2014. Those regulatory amendments became effective on October 1, 2013.

In your findings, you also recognized the ongoing collaboration between California and Québec, including the testing and evaluation of the auction platform and compliance instrument tracking system, to ensure that the programs are ready to link.

The energy challenge facing California is real. Every Californian needs to take immediate action to reduce energy consumption. For a list of simple ways you can reduce demand and cut your energy costs, see our website: <http://www.arb.ca.gov>.

California Environmental Protection Agency

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Also specified was that CARB should have a process for reviewing and receiving public input on proposed changes to a linked program. The findings directed that CARB report to the Governor and the Secretary for Environmental Protection by November 1, 2013 on the progress to prepare for linking, and whether there are any impediments to linkage occurring in January 2014.

I am pleased to inform you that California and Québec are prepared for linking to proceed on January 1, 2014. CARB and Québec have in place procedures for ongoing coordination between the two programs, including early identification of proposed changes to offset protocols or plans to adopt new protocols. Our collaboration with Québec is formalized in an agreement between the two jurisdictions, titled: "Agreement between the California Air Resources Board and the Government of Québec Concerning the Harmonization and Integration of Cap-and-Trade Programs for Reducing Greenhouse Gas Emissions," also referred to as the "Linking Agreement."

Based on extensive discussion and review of program materials, California and Québec have determined that their respective program processes and procedures for all activities related to issuing, tracking, and monitoring the trading of compliance instruments are consistent and compatible. We have developed procedures and processes to conduct jointly with Québec, and are on track to finalize those procedures and processes prior to January 1, 2014. We and Québec have concluded that the programs are prepared to link by enabling compliance instruments to be transferred between participants in the two programs as of January 1, 2014, as called for in the program regulations.

However, the programs are not yet ready to conduct joint auctions. The auction platform and financial services have been fully tested and deployed for California auctions, with four auctions having been held to date. Québec has tested the platform with a practice auction and its first auction is scheduled for December 3, 2013. The auction platform has not been fully developed or tested to support joint auctions.

We recommend that joint auctions only occur after readiness for joint auctions is confirmed based on the auction platform being fully tested and joint auction procedures being finalized, which is anticipated to occur in 2014. California and Québec will continue to hold separate auctions until all preparations are complete for joint auctions.

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In support of these recommendations, I am transmitting with this letter a report describing the status of our readiness to proceed with linking the California Program with the Québec program. I am also transmitting a copy of the Linking Agreement with Québec. If you have any questions, please feel free to contact me at (916) 322-5840 or mnichols@arb.ca.gov.

Sincerely,



Mary D. Nichols
Chairman

Enclosures

cc: The Honorable John A. Pérez
Speaker of the Assembly
State Capitol, Room 219
Sacramento, California 95814

The Honorable Nancy Skinner, Chair
Assembly Budget Committee
State Capitol Room 6026
Sacramento, California 95814

The Honorable Darrell Steinberg
President pro Tempore
California State Senate
State Capitol, Room 205
Sacramento, California 95814

Honorable R. Matthew Rodriguez
Secretary for Environmental Protection

Honorable Board Members

Richard W. Corey
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