



Michael J. Murray
Regional Vice President
State Governmental Affairs

925 L Street, Suite 650
Sacramento, CA 95814

(916) 492-4245
mmurray@sempra.com

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

RE: Comments of Sempra Energy - Recognizing Voluntary Early Actions in Cap-and-Trade presented on March 10, 2009

Sempra Energy appreciates that the California Air Resources Board (CARB) recognizes the need to encourage early actions within the regulated community and in alignment with AB 32 to ensure equitability while minimizing costs and maximizing benefits. One of the strongest actions CARB can take to ensure the success of AB 32, the Global Warming Solutions Act of 2006, in a way that automatically recognizes early actions, is to regulate greenhouse gas (GHG) emissions in a manner that creates accurate and consistent price signals that all regulated entities would see for every ton of their GHG emissions. By implementing regulation that recognizes that the cost of every ton of GHG emissions is the same, regardless of source, CARB would implement regulation that automatically recognizes and rewards emission reductions that have occurred prior to the effective date of GHG regulation. CARB would also ensure that every financial decision that could impact GHG emission levels is made on the basis of a full consideration of the costs associated with GHG emissions.

By recognizing early actions through regulation that imposes the same consistent price signal for every ton of GHG emissions, without subsidizing emissions attributable to high volume polluters, CARB could avoid any need for allowance set-asides to reward early action by entities within capped sectors. This is important because this kind of set-aside would create numerous economic implications for entities within capped sectors and the California economy that may not be fully known before GHG regulation is implemented in California.

Sempra Energy has carefully considered the questions CARB asked at the March 10 workshop and in concert with Scoping Plan definitions and WCI Design Measures, offer comments to those questions below.

Definition Discussion

The questions from the March 10, 2009 workgroup meeting use terms including: voluntary early action, early action credits, credits, early reduction credits, and voluntary early actions. CARB could facilitate further discussions of early action issues by issuance of suggested definitions to distinguish between different situations or to clarify that similar sounding terms actually mean the same thing.

- The first criteria should be whether the option creates and promotes accurate price signals regarding the costs associated with every ton of GHG emissions that are emitted in California or associated with electrical generation delivered to California.
- The second criteria should be to ensure that all entities within capped sectors see and consider the same accurate price signals for every ton of GHG emissions for which they are responsible under AB32; this will ensure that these costs are fully and consistently considered whenever decisions are made that could have an impact on GHG emission levels.
- The third criteria should be administrative simplicity. GHG regulation is an enormously complex undertaking; unnecessarily complex mechanisms to reward early actions should be avoided.
- To the extent that CARB nevertheless decides to address this issue through early action credits for entities within capped sectors, and to the extent it makes early action credits/offsets available for entities that are not subject to a cap, it should ensure that the activities were pursued for the purpose of reducing GHG emissions.

3. How far back should we go to establish eligibility for early action credits?

- Entities not subject to a cap, as well as entities within capped sectors to the extent that CARB decides that all emitters should not face the same price signal for every ton of emissions for which they are responsible, should be awarded Early Action credits for any GHG reduction activities occurring prior to 2012.

4. Should credits be based on total reductions achieved prior to 2012 without regard to when in the eligibility window these occurred?

- Early Action credits, as described in Response No. 3, should be based on verifiable GHG emissions reductions achieved prior to 2012.

5. Should early reduction credits be treated the same as allowances, and how should they be accounted for in the cap?

- Early Actions within a capped sector should be automatically credited by implementing regulation that imposes the same costs on all entities within capped sectors for every ton of GHG emissions for every unit of output/sales, without regard to historical emission levels.
- Under the forgoing regime, early actions within a capped sector would be rewarded due to a reduced need to acquire allowances by way of auction, or through an allocation of allowances that could be sold based on sales, that treats every MWh of generation the same, without regard to fuel source or historical emission levels.

9. Should the 2012 cap increase to include early action credits from capped sources, and what conditions or criteria should apply in making that determination?

- If adopted, early action credits should be additional and capped entities should be rewarded early action credits.

10. Should firms that voluntarily reported emissions to the California Climate Action Registry receive credit for actions they took to reduce emissions? If so, what years of registry reporting should be considered?

- CCAR emission reports could be used to verify voluntary emission reductions prior to 2012.

Voluntary Early Actions Outside of Capped Sources

11. What options for rewarding voluntary early actions should be considered?

- Non-capped entities could be awarded offsets, allowances, or early action credits that are fungible with either offsets or allowances. If offsets cannot be issued prior to establishment of additional protocols, early action credits are preferable.
- In the event set-aside allowances are used to reward early action credit to non-capped sources from project based reductions, such allowance should not come out of the cap.
- In the event set-aside allowances are taken from the cap to award early action credit to capped sources, project based reductions from non-capped sources should not be awarded set-side allowances from the cap because this will penalize those under the cap

12. What criteria should be used to select projects that would be eligible for credits?

- GHG regulation should seek to avoid any such administrative determinations and reward early action through regulation that imposes accurate and consistent price signals for every ton of GHG emissions.

13. Should project-based voluntary reductions that follow Board-approved protocols qualify for credits in a cap-and-trade program?

- Non-capped entities that reduce GHG emissions following Board-approved protocols should be awarded fungible offsets. Early action credits should be treated as offsets that are useable to substitute for allowances.

14. If early action projects continue to generate emission reductions after 2012, should they still qualify for early reduction credits, set asides, or offsets?