

**American Lung Association of California * Breathe California * Center for Energy Efficiency
& Renewable Technologies * Center for Resource Solutions * Environment California
Natural Resources Defense Council * The Nature Conservancy * Union of Concerned Scientists**

April 30, 2009

VIA E-MAIL: ccworkshops@arb.ca.gov

Brienne Aguila
California Air Resources Board
1001 "T" Street
Sacramento, CA 95812

Re: Design Recommendations to Implement a Quantitative Offset Limit

Dear Ms. Aguila,

On behalf of the undersigned organizations, we appreciate the opportunity to comment on issues relating to the implementation of a quantitative limit on the use of offsets in a California cap-and-trade program. While our organizations have varied perspectives on the most appropriate quantitative limit on the use of offsets, we are in agreement that CARB should implement the quantitative limit in a manner that is administratively simple, similar in design to other programs, and fosters reliable emissions reductions. With these criteria in mind, we offer the following recommendations:

CARB's offset limit should be based on usage.

At CARB's March 23 workshop, staff presented three potential methods for implementing a quantitative limit on offsets: (1) limiting the amount that any individual entity can use, (2) limiting the total number of offsets supplied into the cap-and-trade system, or (3) a hybrid approach, such as creating a limited number of "offset quota certificates" that complying entities must surrender in order to use an offset. For numerous reasons, we support CARB limiting offsets in a California cap-and-trade program by limiting the amount that any individual entity can use.

Compared to a supply limit, a usage limit is less likely to lead to an initial rush for certification by offset providers.¹ Such a rush could potentially lead to lower quality offsets and favor the development of certain project types over others. A usage limit, on the other hand, would provide more certainty for buyers and sellers, as capped entities would have advance knowledge of the amount of offsets that they may purchase to meet compliance obligations, which would encourage longer-term contracts and up-front investments, while offsets providers would know that their projects would be allowed into the system. In short, by implementing a usage limit, CARB can foster a broader range of potential offsets that offer more reliable emissions reductions.

A usage limit is also preferable to a hybrid system that uses "offset quota certificates" because it does not create additional transaction costs for the market system, nor additional administrative burden for CARB. While the ability for CARB to capture value through sale of quota certificates is enticing, it is not worth the added complexity. Finally, both the European Union's Emission

¹ CARB noted a rush for certification could happen with a supply limit at workshop on March 23, 2009.

Trading Scheme (EU ETS) and the Regional Greenhouse Gas Initiative (RGGI) limit offsets based on usage. Thus, CARB's adoption of a usage limit would create parity across these systems.

CARB should define “reductions” relative to the level of the cap at the close of the previous compliance period.

The Scoping Plan specifies that offsets may account for no more than 49% of emission reductions.² However, the plan does not specify how to calculate “reductions.” We believe CARB should calculate the allowable number of offsets for each compliance period based on reductions that occur during that compliance period.³ For example, the total offsets allowed in the second compliance period (2015-2017) should be based on reductions during that period, relative to the 2014 cap; total offsets allowed in the third compliance period (2018-2020) should be based on reductions during that period relative to the 2017 cap. Of course, the first compliance period (2012-2014) does not have a previous compliance period to which to compare reductions. In this case, total offsets should be based on reductions relative to the 2012 cap.⁴

The alternative approach CARB presented for calculating reductions, which calculates reductions on a fixed baseline⁵ (2012 for electricity and industrial sources, and 2015 for transportation, commercial and residential sources), gives unwarranted significance to emissions levels at the program's start date. Consider, for example, that in the tenth compliance period (2039-2041), the allowable number of offsets would be based on reductions from emissions levels more than 20 years in the past.

CARB should advise the WCI to limit offsets based on usage.

The WCI should be mindful of how disparate methods of implementing a quantitative limit between jurisdictions might advantage one jurisdiction over another, and also consider the added administrative complexities of linking programs with different designs. For these reasons, in addition to those listed above, we urge CARB to advocate within the WCI process to ensure each jurisdiction implements its own quantitative limit based on usage, and to define “reductions” based on the level of the cap at the previous compliance period.

Thank you for consideration of our comments. We look forward to continuing to work with CARB staff on this and other design issues relating to implementation of the AB 32 cap-and-trade program.

Sincerely,

CHRIS BUSCH, Ph.D., Center for Resource Solutions

BERNADETTE DEL CHIARO, Environment California

² CARB Climate Change Scoping Plan, pg. 37

³ CARB presentation at workshop on March 23, 2009, p.17 (available at <http://www.arb.ca.gov/cc/capandtrade/meetings/032309/march231presentation.pdf>)

⁴ Similarly, reductions for the transportation, commercial & residential sectors, which come under the cap in the second compliance period, should be calculated based on the portion of the 2015 cap attributable to those sectors.

⁵ CARB presentation at workshop on March 23, 2009, p. 16

KRISTIN GRENFELL, Natural Resources Defense Council

BONNIE HOLMES-GEN, American Lung Association of California

ANDY KATZ, Breathe California

DANIELLE OSBORN MILLS, Center for Energy Efficiency and Renewable Technologies

MICHELLE PASSERO, The Nature Conservancy

ERIN ROGERS, Union of Concerned Scientists