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Via Email to ccworkshops@arb.ca.gov

Mr. Sam Wade
Office of Climate Change
California Air Resources Board
1001 I Street
Sacramento, CA 95812

**Re: Southern California Public Power Authority Comment on March 23, 2009
Workshop on Offsets**

Dear Mr. Wade:

The Southern California Public Power Authority (“SCPPA”) appreciates this opportunity to comment on the issues discussed at the March 23, 2009 workshop on implementing a quantitative limit on the use of offsets in a cap-and-trade program. SCPPA compliments you and the Air Resources Board (“ARB”) staff on your thought-provoking presentation at the workshop.

Now that we have had the April 28, 2009 workshop on establishing criteria for offsets, it appears that the March 23 and April 28 workshops may not have been sequenced properly. The staff’s presentation at the April 28 workshop on the criteria for offsets makes it clear that the selection of criteria will, in itself, limit the availability of offsets. It seems that it would be best to address the issue of whether there needs to be a quantitative limit on offsets and, if so, what that quantitative limit should be only after the criteria for offsets are reasonably close to being defined.

If, nevertheless, the ARB staff elects to continue to consider the quantitative limit issue now, SCPPA recommends that there not be a quantitative limit on offsets. If there is to be a limit, it should be closer to the generous limits that have been proposed by the United States Climate Action Partnership (“USCAP”) and by Congressmen Waxman and Markey in the American Clean Energy and Security Act of 2009 (“ACESA”) discussion draft. If, contrary to these recommendations, the ARB were to adopt a limit that is calculated to be 49 percent of the emission reductions that are required during a compliance period, then the 49 percent limit should be imposed in a manner that would assure that the cost containment benefits of the offsets program flow to entities that are covered by the cap-and-trade program.

I. THE CRITERIA FOR OFFSETS SHOULD BE ESTABLISHED BEFORE DECIDING WHETHER THERE SHOULD BE A QUANTITATIVE LIMIT ON ALLOWANCES.

The primary criteria that would be used to determine whether an offset would be eligible to be used for compliance purposes by a cap-and-trade covered entity should be defined or be reasonably close to being defined before deciding whether there needs to be a quantitative limit on the total amount of offsets that covered entities would be permitted to use during a compliance period.

Assembly Bill (“AB”) 32 establishes the primary criteria for determining whether an offset should be recognized as a GHG emission reduction. AB 32 requires that all greenhouse gas (“GHG”) emission reductions must be “real, permanent, quantifiable, verifiable, and enforceable by the state board,” with the “state board” being the ARB. H&S Code § 38562 (d) (1). Further, any reduction must be “in addition to any greenhouse gas emission reduction otherwise required by law or regulation, and any other greenhouse gas emission reduction that otherwise would occur.” H&S Code § 38562 (d) (2).

It is clear from the discussion of the April 28 workshop that the staff is envisioning implementing the AB 32 criteria in a way that will be quite restrictive. Each criterion is being defined in a way that will result in the imposition of tests or sub-criteria to determine whether the primary criterion is satisfied. Once the criteria are reasonably close to being defined, both the ARB staff and stakeholders will be better prepared to project with some reasonable degree of precision the extent to which offsets will be available. That would be a better time to turn to the question of whether quantitative limits are going to be necessary.

II. IF THE ARB IS TO ESTABLISH A QUANTITATIVE LIMIT ON OFFSETS AT THIS EARLY STAGE, THE LIMITS SHOULD BE LIBERAL.

If the ARB desires to pursue the issue of establishing a quantitative limit on offsets without waiting to define the AB 32 criteria for offset eligibility, the quantitative limit should be liberal. Aside from the complementary measures that are outlined in the ARB’s December 11, 2008 Scoping Plan, a liberal offsets program would be the primary tool to contain cap-and-trade allowance prices. The ARB recognized in its Scoping Plan: “Offsets can provide regulated entities a source of low-cost emissions reductions.” Scoping Plan at 37.

An offsets program can provide multiple other benefits in addition to cost containment. Some of these additional benefits were also discussed in the Scoping Plan:

Offsets can also encourage the spread of clean, low carbon technologies outside California. High quality offset projects located outside the state can help lower the compliance costs for regulated entities in California, while reducing greenhouse gas emissions in areas that would otherwise lack the resources needed to do so. International projects may also have significant

environmental, economic and social benefits. Projects in the Mexican border region may be of particular interest, considering the opportunity to realize considerable co-benefits on both sides of the border.

Ibid.

Given the multiple benefits that could be obtained through a robust offsets program, any quantitative cap on the amount of offsets that could be used for compliance purposes by cap-and-trade covered entities should be liberal. To this end, the USCAP recommends a range of 2-3 billion metric tons total as the limit on offsets nationally. USCAP, A Blueprint for Legislative Action, page 9 (January, 2009). A similar limit has been included in the discussion draft of the ACESA by Congressmen Waxman and Markey. SCPPA understands that a limit of 2-3 billion metric tons would result in offsets being limited to about 30 percent of national GHG emissions. If such a limit were applied proportionally to California, offsets would be permitted to be used to meet up to nearly a third of the compliance obligation of covered entities under the California cap-and-trade program.

III. IF A QUANTITATIVE LIMIT IS TO BE ESTABLISHED, THAT LIMIT SHOULD BE APPLIED IN SUCH A WAY AS TO RETAIN THE FULL COST CONTAINMENT BENEFITS OF AN OFFSETS PROGRAM.

If offsets are to be quantitatively limited, the limit should be applied in such a way as to assure that the full cost containment benefits of the offsets program flow to cap-and-trade covered entities, given that cost containment is the primary reason for allowing offsets. SCPPA was quite concerned to hear at the March 23 workshop that the staff proposed to create a new offset license instrument called the “offset quota certificate.” The number of certificates would be set to equal the number on offsets that were allowed to be used during a compliance period by covered entities. The “offset quota certificates” would be sold through an auction. As a result, covered entities would be required to pay *both* for offsets *and* “offset quota certificates.” This would cause the total cost of offsets to rise to the actual or projected level of allowances, contrary to the primary cost containment purpose of the offsets program.

If a quantitative limit is to be imposed on the use of offsets, the quantitative limit should be applied in such a way as to permit covered entities to realize the full cost containment benefits of the offsets program. Any spread in value between the cost of offsets and allowance prices should be retained by cap-and-trade covered entities, consistent with the cost containment objective of the program.

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SCPPA appreciates this opportunity to submit these comments and looks forward to commenting further on offsets issues in the comments due on May 21, 2009, regarding the topics discussed at the April 28, 2009 ARB Staff Workshop.

Respectfully submitted,

/s/ Norman A. Pedersen

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