Subject: FW: Comment for ETAAC Meeting 1/25/08
From: Sierra Hearing Room <SierraRm@CALEPA.ca.gov>
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From: Aimee.Barnes@ecosecurities.com [Aimee.Barnes@ecosecurities.com]
Sent: Friday, January 25, 2008 1:26 PM
To: Sierra Hearing Room
Subject: Comment for ETAAC Meeting 1/25/08

Thank you for the hard work the ETAAC committee has done on this new draft. On behalf of EcoSecurities, I would like to make some comments on a few points related to the issue of offsets.

First, the draft states that, "some ETAAC members are concerned that a broad offset program will lessen the incentive for innovation within capped sectors," and mentions the "innovation suppressing effects of a broad carbon offset program."

We disagree with these statements. Incentives for innovation are clearly important as we move forward on implementation to AB 32. However, it is important that the kinds of incentives we create reflect the actually process of technology development and deployment. This process can be broken into 3 stages: 1) invention, 2) innovation, and 3) diffusion. While we concede that offsets may not *directly* incentivize invention of new low carbon technologies (stage 1), they *do* facilitate innovation and diffusion (stages 2 &3). We also assert that these two steps are equally, if not more important to encouraging innovation, since an inventor will have little incentive to devise new low carbon technologies if there are not opportunities to deploy and therefore profit from the sales of these technologies in the future. Offset projects are a proven mechanism for deploying innovative low carbon technologies outside the cap, as evidenced by offset projects that are now providing, for example, for the installation of anaerobic bio-digesters, truck stop electrification, CFL use, etc.

In terms of offsets reducing innovation incentives for sectors covered under the cap, we would like to point out that serious, game-changing technology shifts will be essential for capped entities to meet their targets in the long term. As such, responsible emitters will have to start making equally long-term investment decisions in the near future. Under AB 32, 2020 is really just a fly-by to 2050. Acknowledging this, offsets should not be cited as a disincentive to innovation in the capped sector, since they cannot reasonably be blamed for influencing long term investment decisions. Offsets are intended to control costs in the short term, and therefore limiting offsets would only serve to make the transition to a low-carbon economy unnecessarily more abrupt and more difficult for society.

The draft document also states that "offsets themselves provide no incentives for early action." This statement is untrue, since many companies whose emissions will be covered under the cap in 2012 could be incentivized to make immediate reductions today by granting them early action credits, or offsets, as a reward for doing so. These credits could then be sold onto the voluntary market in the immediate term, or banked for future use under the compliance market. As such, offsets seem to be a relatively clear mechanism for incentivizing early action.

In addition, the draft states that, "out-of-state offsets will send money out of the California economy, thereby limiting innovation and investment within the state's borders. Geographic limits on offsets could be helpful in promoting in-state innovation and reductions. Keeping these activities in-state would also ensure that California is able to take advantage of co-benefits… etc. Placing geographic limits on offsets is one way to guarantee that offset projects... meet California's rigid standards for "additionality" and verification."

We believe that limiting offsets geographically would certainly limit their supply as well, increase their cost, and could in turn undermine their ability to deliver cost-effective reductions, and therefore, a cost-containment mechanism for the cap-and-trade system in general. In turn, this would make leakage of emissions out of state much more likely. Rather than placing limits on offsets geographically or quantitatively, we would encourage the ETAAC to recommend only high quality standards for offsets across the board. This would increase the quality of offsets accepted on the whole, instead of simply shrinking the pool of credits (and thus, poor quality credits) that are allowed. California could also very easily guarantee that offsets from outside its borders meet the state's rigorous additionality requirements by linking only with other C&Tsystems whose offsets and crediting systems meet California's requirements. Finally, if the ETAAC is concerned about retaining co-benefits in the state, we would recommend that the Committee provide for the following to encourage development of in-state projects:

- Streamlining of air and water permitting processes with offset protocols to make offset projects easier to develop (it has been our experience thus far that there are a number of regulatory and other barriers to developing voluntary offset projects within California, making them unnecessarily complicated and expensive and thus making projects outside California more attractive)
- Providing incentives for credits that represent socially desirable co-benefits (i.e. geography, improvements to local air quality, benefits to EJ communities, etc.). This could include:
    - identifying a list of project types for CCAR to consider that would promote such benefits (e.g. insulation of low-income housing),
    - providing a streamlined/fast-tracked approval process for these projects,
    - making such projects free to register (which would provide significant cost savings for the project developer),
    - creating a "gold standard" seal of approval from the state for such credits that could garner a premium on the voluntary market

Finally, the report claims that, "by providing increased flexibility for compliance, offsets can lower price signals." In fact, offsets promote a healthy price signal and can do so even before trading begins if credits for early action are given. Furthermore, by increasingly flexibility, sensitivity to price signals should actually be heightened since in theory, an emitter with the option of purchasing offsets would need to be more sensitive to the true cost of GHG emissions reductions for their sector to responsibly decide whether it is more cost-effective to make those reductions in-house, or to purchase credits from outside the cap.

We appreciate your consideration of these comments and hope they will be incorporated into the final report. Thank you for your time.

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