AB 32 Implementation Group

Working Toward Greenhouse Gas Emission Reductions
And Enhancing California's Competitiveness

April 21, 2008

Mr. Stephen Shelby
Research and Economics Studies Branch
California Air Resources Board
1001 I Street
Sacramento, CA 95814

RE: Role of Offsets in AB 32 Implementation

Dear Mr. Shelby:

Thank you for the opportunity to comment on the role that offsets should play in the implementation of AB 32. The AB 32 Implementation Group is a coalition of more than 140 organizations involved in the process to help make sure AB 32 is implemented in a balanced way that reduces greenhouse gas emissions without hurting workers, consumers and the economy.

First, the AB 32 Implementation Group believes that offsets are critical to the successful implementation of AB 32. Based on research and experience, offsets provide a means of reliably reducing greenhouse gas emissions reductions. They are important for avoiding leakage of emissions to other states and countries and that means avoiding the loss of thousands of jobs. They also reduce the cost of complying with AB 32 and would save California's economy billions of dollars.

Very importantly, offsets allow California to continue to be an international leader in the fight against climate change. Under federal law, California's regulatory interactions with international institutions are limited. Specifically, it would be very difficult to construct a state mechanism that would link California directly to European Union (EU) markets. Offsets would help bridge this legal hurdle. For example, using credits generated from the United National Clean Development Mechanism (CDM) would link our state to the EU.

We believe the following guidelines need to be adopted when considering how to incorporate carbon offsets in AB 32 implementation.

1.) Carbon reduction needs to be real, verifiable, and permanent.

2.) Energy efficiency projects must be included as an acceptable carbon offset project. This will encourage greater reduction in energy usage and give all retail, commercial and industrial customers the incentive to develop and implement energy efficiency projects. Most large corporations are facing a scarcity of capital, thus increasing the acceptable IRR of projects to well over 20%. The added monetary incentive of carbon offsets is crucial to meet this hurdle rate.

3.) Renewal energy projects such as wind and solar should be acceptable carbon offset projects.

4.) Recycling projects that meet design criteria should be acceptable offset projects.

5.) Project verification must be streamlined and cost efficient. We advocate that a standards based approach be used in the verification process of carbon offset projects. For example, a retail company with over 500 locations in California cannot afford the cost of verifying energy efficiency implementation on a project-by-project basis. This would defeat the value of the projects. We do not oppose the idea of third party verification, but this can be incorporated in a standards based approach. The standards should first be promulgated which will allow customers to complete projects based on those standards. Verification should happen when the project is completed.

6.) There should be no limit to the amount of carbon offsets that can be developed and incorporated into a cap and trade program. The greater the volume of offsets, the more liquidity of the market. Supply and demand and ultimately the cost of a ton of carbon will be the most effective way to regulate the quantity of offsets.

7.) Carbon offsets should have a minimum ten-year life. This is reasonable since the offset represents a permanent reduction in CO2. Additionally, a sufficient revenue stream is needed to drive acceptable economics for corporate customers that must achieve a 20% or greater IRR.

8.) Carbon offsets should have a broad geographic footprint. Specifically, at the launch of the program, certified emissions reductions (CERs) generated, verified and certified by the Clean Development Mechanism (CDM) of the United Nations Framework Convention on Climate Change (UNFCCC) should be accepted without additional limitations. A large footprint will help counter leakage issues that may arise from the electric generation and industrial sectors.

9.) Early action credits should be allowed and encouraged. With the intent of encouraging reductions today, ARB needs to develop a set of standards for early action. If a consumer can verify the reduction as permanent and real, then an offset should be generated.

Sincerely,

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