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Mr. Kevin Kennedy
Program Evaluation Branch
Office of Climate Change
Air Resources Board
1001 I Street
Sacramento, CA

Re: Sempra Energy Comments on Reporting, Verification and Enforcement

Dear Mr. Kennedy:

Sempra Energy submits the following comments concerning the questions posed in the workshop held June 3, 2008 concerning Reporting, Verification and Enforcement.

1. Should reporting and verification periods be shorter than compliance periods?

Yes. Sempra supports multi-year compliance periods as critical to smoothing the annual GHG fluctuations that occur in the energy industry due to weather and hydro conditions. The annual reporting requirements in the Mandatory Greenhouse Gas Emissions Reporting regulations will monitor progress both at the facility level and for analysis of state goals and objectives. If there is a carbon market, annual reporting will provide valuable information to market participants. Annual reporting also fits well with The Climate Registry reporting requirements under the WCI and annual reporting will most likely be required in any national program.

2. What other changes would need to be made to the existing reporting and verification procedures created by the 2007 Greenhouse Gas Reporting Regulation to accommodate a cap and-trade system?

One potential modification that may be a necessary part of a cap-and-trade reporting requirement is how to report reductions in response to electrification. If a firm chooses electric equipment to replace natural gas or petroleum using equipment, would the reporting protocols give all the reduction to the entity or only the net reduction (difference between the emissions before and after recognizing the emissions associated with electricity)? In the electric sector,

there are protocols for retail providers where similar provisions apply (See 95111 (b) (3) (F)). As the design of the AB32 regulatory becomes clearer, a re-evaluation of the mandatory regulation, including evaluation of unspecified electricity import emissions, may be appropriate.

3. How should ARB set penalties for failure to surrender sufficient allowances or offsets to match verified emissions?

Sempra Energy supports a limited ability to borrow and alternate compliance payments as opposed to penalties. One model is the excess emissions provisions of the Acid Rain program. Assessing a per ton fee at the current value of allowances and requiring the party to offset the shortfall with an equivalent amount of allowances in the next annual reconciliation would provide incentive to comply with the rules.

4. How should ARB best implement the enforcement provisions of section 38580 against violations resulting from electricity imports or the purchase of offsets from out-of-State entities?

The obligation to comply falls on the entity doing business within the State. It may be necessary to modify section 42400 to address any language that is not sufficient to allow enforcement provisions for entities operating within California regardless of the origin of the electricity or offsets. The accounting and verification provisions of the Mandatory Reporting regulations are adequate to quantify emissions for specified out-of-State generating resources.

5. How should ARB contend with potential manipulation in credit trading markets?

Markets should be broad and deep enough so that manipulation is not an issue; ARB should make this determination prior to establishing a GHG credit and allowance trading market. Effective and timely measuring, reporting, verification and enforcement provisions help to create transparency and credibility in a GHG credit trading market. Market accountability standards and verification/certification processes should be periodically "tested" to ensure adequacy. Using California Climate Trust or other entity for market intervention trades could demand inordinate diversion of auction revenues or affect integrity of cap if additional allowances are issued. An oversight body may be needed but would further fracture institutional responsibility for AB32 implementation. This aspect should be further evaluated after the structure of the AB 32 is further defined.

Thank you for the opportunity to submit these comments.

Sincerely yours,

Taylor O. Miller

Cc: Chuck Shulock
Edie Chang