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September 11, 2009

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Ms. Lucille Van Ommering
California Air Resources Board
Office of Climate Change
1001 I Street
Sacramento, CA 95814

RE: International Offsets in a California Cap-and-Trade Program on July 30, 2009

Dear Ms. Van Ommering:

Sempra Energy submits these comments concerning the use of International Offsets in a California Cap-and-Trade Program as presented at the Staff Workshop on July 30, 2009.

At the workshop Staff clearly recognized that sectoral crediting will require upfront work including international negotiations and standards development. Given the time constraints and the dearth of information on how many cost-effective offsets will be available in 2012, Sempra Energy believes that ARB should allow the use of project-based offsets and also pursue authorization of sectoral crediting provided adequate protections to ensure that emission reductions are real, verifiable and additional. The following are Sempra Energy's responses to the ARB workshop questions.

1. Should ARB accept existing international offsets?

Consistent with our August 21, 2009 comments on linking to other programs, Sempra Energy believes that linking to international offset opportunities will broaden the marketplace and lessen economic impacts, ensure liquidity and, if properly implemented, maximize cost control opportunities while ensuring accurate carbon emission price signals within California's cap and trade program. Sempra Energy generally agrees with the Market Advisory Committee that "offsets broaden the reach of the program and help promote the achievement of overall emissions-reduction goals at lower cost"¹.

2. Should ARB accept project-based offsets, accept sectoral crediting only, or a combination of the two?

Sempra Energy recommends both sectoral and project-based offsets be accepted in the California program as outlined below.

At the July 30, 2009 workshop presentation ARB noted that a sectoral crediting system presents viable opportunities to reduce leakage and levelize competitiveness concerns. But as Staff pointed out, a sectoral crediting process is complex and implementation will take time. Sempra Energy agrees with Staff that sectoral crediting requires more development time and capacity building. The final rules must recognize the need to

¹ Page 62, Recommendations for Designing a Greenhouse Gas Cap-and-Trade System for California, Recommendations of the Market Advisory Committee (MAC Report) to the California Air Resources Board, June 30, 2007

ensure that agreements for sectoral offsets set a baseline and assess the quantity of reductions that are additional in a manner that includes safeguards to ensure that all such off-sets are truly real, verifiable, and additional.

As Staff and California businesses recognize, the cap and trade sectors will need an early supply of offsets at the onset of a cap-and-trade program. Staff's comments that ARB might consider CDM projects are a step in the right direction, though Staff's caveats about only allowing projects with high sustainability criteria in least developed countries is too conservative, especially since sustainability is not an AB 32 offset criterion. Sempra Energy agrees with the Market Advisory Committee majority view that "Clean Development Mechanism (CDM) credits under the Kyoto Protocol should also qualify as offsets under a California cap-and-trade program²."

3. How could ARB enforce international offsets?

Sempra Energy does not agree that the State of California necessarily needs to rely on formal Memorandas of Understanding to ensure enforceability of project-based offsets where the projects may be located outside of California.

Many businesses which hold interests in California also routinely conduct transactions in the international marketplace. "Enforcement" is should not be limited in purview to direct oversight by government agents but is instead a broad term that includes financial and legal instruments. Using such instruments is clearly the enforcement concept recommended by the Market Advisory Committee in its Final Report to The California Air Resources Board. In Section 6.3.2 of the Committee defined its vision on how projects would meet the criteria of being "enforceable" by defining in footnote that the enforceability mechanism means that; "Reductions should be backed by contracts, legal instruments, and official registration requirements that define their creation, provide for transparency, and ensure exclusive ownership³."

Given the uncertainties surrounding the volume of cost-effective offsets available within California, the narrow scope of the cap and trade in the first period, and the absence of any safety valve, overly restrictive offset policies and/or policies that fail to allow adequate flexibility for future adjustments, could lead to a highly volatile carbon price in California. Sempra Energy encourages ARB to incorporate international offsets beginning in the first compliance period as a way to assure more stability in the carbon price as outlined above.

Thank you for the opportunity to comment.

Yours sincerely,



c: Ms. Breanne Aguila
Mr. Steve Cliff

² Page 63, (MAC report)

³ Page 63, (MAC report)