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**Catherine H. Reheis-Boyd**  
President

January 23, 2013

Mr. Richard Corey  
California Air Resources Board  
1001 I Street,  
Sacramento, CA.

Via Electronic Mail - <http://www.arb.ca.gov/lispub/comm/bclist.php>

Subject: WSPA Comments on ARB's January 8, 2013 Second 15-Day Amendments to the California Cap on Greenhouse Gas Emissions and Market-based Compliance Mechanisms to Allow for the Use of Compliance Instruments Issued by Linked Jurisdictions

Dear Mr. Corey,

The Western States Petroleum Association (WSPA) is a trade association that represents 27 companies that explore for, develop, refine, market and transport petroleum and petroleum products and natural gas in the Western United States. WSPA members have extensive operations in California and have a significant interest in ensuring that market-based systems, such as the Cap and Trade program operate efficiently and equitably.

WSPA has participated in stakeholder meetings, broad-based industry and environmental group meetings and provided comments on the draft and the final amendments for linking California's and Quebec's Cap and Trade Programs. We, along with many others, provided input at previous California Air Resources Board (ARB) workshops that identified issues linking California's Cap and Trade Program with the Canadian Province of Quebec. Recognizing the key role that linkage to other programs will have, WSPA is providing these comments on ARB's Second 15-Day Notice of Public Availability of Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Regulation to Allow for the Use of Compliance Instruments Issued by Linked Jurisdictions.

As ARB considers linkage to other programs, it is critical to begin with a state program that is efficient, transparent, effective, and well-designed. Over the past five years and in particular in 2011

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and 2012, WSPA along with other stakeholders have submitted a series of fairly specific comments on the overall policy aspects of linking with other jurisdictions and on the details of the program to link with other jurisdictions (Quebec in particular). Despite these suggestions, there appears to be no apparent movement by ARB to make linking more cost-effective and more administratively effective (for example see WSPA and industry comments on holding limit).

It is imperative that the ARB reverse what appears to be its “full speed ahead” approach and make reasonable and rational changes such that linkage with other programs is more cost-effective and more administratively workable. It is clear that ARB is aware that several issues remain undefined but still believes that linkage can proceed. Conversely, WSPA believes that the number and impact of unresolved issues are so great as to make it infeasible, if not impossible, to initiate linkage in a broadly-based, efficient and transparent trading program.

Specifically, ARB needs to:

- Identify, define, “fully spec-out” **and test** all trading program elements relevant to linkage. This is even more important because this program could set the precedent for more expansive trading in the future as is contemplated by these amendments in this second 15 day package.
- Revisit the programs it has adopted to determine if they are necessary to support a transparent and efficient trading program. For example, ARB has insisted on setting rigorous, and largely unnecessary, requirements that impose conditions that do not appear necessary in other trading markets and have not been found essential in other successful and highly effective trading programs.

We are concerned that moving forward with the program as currently defined and structured, with such rigid criteria for linking, will make it impossible to link in the future with otherwise strong and viable programs – for example, with the EU ETS. WSPA is concerned that the combined market will set precedent and will propagate flawed market policies. We are especially concerned because Quebec has followed the WCI design and California regulations closely in preparing its own program. As a result, the Quebec program contains a number of market design flaws that are identical to those of California. A prime example is the holding limit which will remove from the California market a quantity of allowances in excess of the entire amount of GHG allowances contained in the Quebec program.

Recommendation: WSPA recommends the use of simpler linkage approaches that would not require detailed market harmonization and that would facilitate linkage with Quebec and other programs as well. In doing so, we ask that ARB continue to develop, test, and revise the California program with focus on making sure it works for sources within the State.

In addition, we recommend that ARB defer linkage until the California and Québec cap-and-trade programs have been successfully implemented and demonstrate success. We make this recommendation noting that neither California’s nor Québec’s cap-and-trade programs have been fully implemented. In light of California’s “adaptive management” approach, it is likely that the California program itself may undergo modifications as the program develops and matures. Hence, rather than

linking the California program to Quebec (or any other programs) when: i) it's not clear whether or how either one of them will work in practice, ii) it's likely that each program will be a moving target as they adapt regulations, it seems prudent to allow each program to develop on a stand-alone basis and have an opportunity to demonstrate success before attempting linkage.

ARB should consider the possibility that elements of the Québec program may prove superior to those in California when considering the long-term viability of a cap-and-trade program. In such case, the ARB program may require modification prior to linkage.

In summary, it is incumbent on ARB to design the program and linkage elements correctly, because otherwise "linkage" will be simply an illusion. Attachment A below cites examples of tasks that were noted in our 2012 submittals.

Thank you for your consideration of our comments. Should you have any questions, please feel free to contact me or Mike Wang of my staff (cell: 626-590-4905; mike@wspa.org).

Sincerely,

A handwritten signature in blue ink, reading "Cathy A. Boyd". The signature is stylized with a large initial "C" and "B".

Cc: Edie Chang, ARB

Attachment A: June 27, 2012 correspondence

**Attachment A:**



WSPA ARB Linkage  
Letter June 27.pdf