



December 16, 2016

Rajinder Sahota
Chief, Climate Change Program Evaluation Branch, Industrial Strategies Division
California Air Resources Board
1001 I Street, Sacramento, California 95814

Thank you very much for the opportunity to comment on the December 2, 2016 Discussion Draft of the 2030 Target Scoping Plan Update. The purpose of this letter is to briefly describe our views on how both the Cap and Trade and offset programs *currently employed* by ARB to meet California's climate goals already fit squarely into the requirements of AB197.

AB197 & Direct Emission Reductions

AB197 requires the prioritization of:

- (a) Emission reduction rules and regulations that result in direct emission reductions at large stationary sources of greenhouse gas emissions sources and direct emission reductions from mobile sources.
- (b) Emission reduction rules and regulations that result in direct emission reductions from sources other than those specified in subdivision (a).

The large stationary sources described in subdivision (a) are in fact the facilities that are covered by the Cap and Trade program, and a reduction in the availability of allowances over time MUST result in direct emission reductions at these facilities. With a particular view to California, the overwhelming majority of large, stationary sources under the cap are located within California; therefore the reductions *will be* occurring locally.

Subdivision (b) actually describes offsets perfectly, as offsets are in fact direct emission reductions from sources other than those covered by the cap. While the majority of offsets generated to date have in fact come from outside California, a climate benefit cannot be "exported" from one locale to another, as some offset critics have stated. Climate pollutants are distributed in the atmosphere on a global scale, and a direct reduction out of state has the exact same climate effects on Californians as a direct reduction in state.

Finally, since only 8% of a facility's compliance obligation can be met with offsets, 92% of compliance must be met with direct emission reductions achieved through the declining availability of allowances. ***This minority share of offsets is a prioritization of direct emission reductions in subdivision (a) while also achieving direct reductions in the sources described in subdivision (b).*** As previously stated, the majority of these will be in California because that's quite simply where the majority of covered facilities are located. Therefore, Cap and Trade with offsets fits well within the above requirements of AB197.



AB197 & Consideration of Effectiveness

AB197 requires that for any measure considered, the following be evaluated:

- (a) The range of projected greenhouse gas emissions reductions that result from the measure.
- (b) The range of projected air pollution reductions that result from the measure.
- (c) The cost-effectiveness, including avoided social costs, of the measure.

While not explicit in the text, this three-pronged approach implies equal weighting between each, but certainly no prioritization of any one of these elements to the detriment of the other two. For example, it would seem to be inconsistent with AB197 to employ a policy that optimizes local air pollution reductions but does not achieve the required GHG reductions and/or is not cost-effective.

Cap and Trade is the only policy under consideration that can guarantee a range of potential greenhouse gas emissions reductions, and Cap and Trade with offsets is widely accepted to be cost-effective. Conversely, Cap and Trade without offsets would not prioritize cost-effectiveness and would thereby be in conflict with that particular provision of AB197.

Also by contrast, ***a carbon tax offers no guarantee of reductions of either air pollution or GHGs and may not be cost-effective either, so it is extremely unlikely that a carbon tax could meet any of the three considerations in this provision of AB197.*** We would also encourage ARB staff to examine and publicly communicate the results in emission reductions actually achieved relative to policy goals in the British Columbia carbon tax regime.

Is Cap and Trade Working?

Cap and Trade needs time to work. It was designed this way. The transition to a low-carbon economy must be smooth in order to avoid disastrous economic consequences, and ARB's program design is accomplishing this.

But let's entertain for a moment the sentiments that reductions aren't happening fast enough, or that today's price roughly at the floor isn't resulting in real reductions. There are changes that can be made to the program design to address these concerns without abandoning the program as a whole. For example, the current oversupply of allowances could be removed (either by quarantining unsold allowances from auctions or by other measures). This would make the amount of allowances in the system more representative of today's actual emissions profile, and real emission reductions will occur faster. Alternatively, ARB could consider raising the auction floor price, providing price support for more reductions.

As for the question of whether Cap and Trade will work into the future, it is the only program that guarantees the targets of AB32 and SB32 are met.



Offsets in Disadvantaged Communities

One of the merits of offsets is that they provide an incentive for society to explore creative ways to achieve the lowest cost of abatement wherever it may be found, which thereby contributes cost-containment benefits to the whole program and society at large. In order to prioritize local reductions in disadvantaged communities, however, can ARB conduct a study, or can offset developers assist in a study, to determine possible offset types that can generate *material* volumes in California's disadvantaged communities? Would ARB be willing to consider other approaches, such as subsidies, to achieving offsets (i.e. direct reductions outside of large, stationary sources as required by SB197) in disadvantaged communities? Bluesource and the offset community at large would be more than willing to assist in such efforts.

Thank you very much for the opportunity to comment on these very important issues. We look forward to continuing to help California achieve its ambitious climate goals.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin Townsend", with a long, sweeping underline.

Kevin Townsend
Chief Commercial Officer
Bluesource