



November 16, 2015  
LEG 2015-0939

Ms. Rajinder Sahota  
Mr. Jason Gray  
Mr. Sean Donovan  
California Air Resources Board  
1001 I Street  
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**Re: Inclusion of Sector Based Offsets in Cap and Trade**

Thank you for the opportunity to submit comments on the inclusion of international sector-based offsets – primarily offsets in the, “Reduce Emissions from Deforestation and forest Degradation”, or REDD category -- in California’s Cap and Trade program. SMUD has consistently supported the inclusion of sector-based offsets in the Cap and Trade program, arguing that such inclusion would help keep compliance costs contained and would be an important facet of California’s leadership and outreach to engage other jurisdictions around the world in reducing greenhouse gas (GHG) emissions, rather than focusing solely on California’s responsibility to reduce those emissions.

For example, when commenting on the 2013 Scoping Plan, SMUD stated:

“A related topic is consideration of offsets from international deforestation avoidance, known as offsets from programs designed to Reduce Emissions from Deforestation and forest Degradation (REDD). Deforestation is a major source of GHG emissions, and REDD offsets are one way to provide funding and incentives to reduce or slow deforestation in areas where the economic or political will to act unilaterally is lacking. As acknowledged by the 2013 Scoping Plan, the Cap and Trade regulation already includes a placeholder structure for these kinds of offsets, and the REDD Offset Working Group provided recommendations to ARB about moving forward on these offsets in July of last year [2013 Scoping Plan, pages 95, 96]. The placeholder structure for REDD-type offsets has been included in the Cap and Trade regulation for three years, and SMUD believes that the ARB should act soon on bringing REDD offsets to the Cap and Trade table.”

In addition, SMUD commented as part of a cost containment issue on the actual 2013 Cap and Trade regulation amendments that:

“SMUD encourages the quick adoption of the proposed coal mine methane protocol and refocused effort on developing and adopting additional protocols; including REDD+ protocols. SMUD also recommends consideration of expanding existing protocols to all of North America and beyond if feasible (SMUD notes that geographic expansion to North America is allowed under the Cap-and-Trade regulations without a new rulemaking).”

SMUD continues to support strong leadership by ARB to improve opportunities for financing of sector-based REDD offset credits. Roughly 11-14% of global GHG emissions come from forest loss and degradation, mostly from tropical forests. Including sector-based REDD and REDD+ offsets in the Cap and Trade program is consistent with the overall goals of AB 32, which include “encouraging other states, the federal government, and other countries to act.” The ARB Staff White Paper released in October 2015 lays out the progress that has been made in developing background information and infrastructure to support the launching of sector-based REDD offsets. The ARB Staff White paper states that investment funds to begin accomplishing reductions in deforestation and degradation are insufficient to begin capitalizing on the background work in place – additional funding is necessary. Opening a rulemaking to consider sector-based offsets (as part of other Cap and Trade amendments under consideration) is timely and important. California can provide leadership on this funding issue by opening the Cap and Trade program to sector-based offsets, providing market-based program funding for this important effort.

The ARB Staff White Paper also talks about how adding sector-based offsets could increase supply of compliance instruments in California’s Cap and Trade marketplace. At the October 28 workshop, ARB staff and stakeholders discussed a likely shortfall of available offset supply during the second and third compliance periods, in comparison to the 8% limit allowed. Reducing this expected shortfall in offset supply by including additional types of offsets, such as the sector-based offsets under consideration, would help to ensure that Cap and Trade compliance instrument prices remain reasonable.

The current Cap and Trade regulation allows sector-based offsets to be used for one quarter of the 8% offset limit in the first and second compliance period and one half of the limit (or 4%) in the third compliance period. The ARB Staff White Paper indicates that the current consideration of sector-based offsets is aimed at making those available to the Cap and Trade market in the third compliance period. However, the proposed schedule for Board adoption of amendments would seem to allow sector-based offsets to be available for potential compliance at the end of the second



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compliance period. SMUD supports an adoption schedule that allows inclusion of sector-based offsets in the Cap and Trade market in the second compliance period to encourage rapid development of positive programs such as REDD+.

For these reasons, SMUD encourages the Air Resources Board to act soon to include sector-based REDD offsets in the Cap and Trade program. Such action will help reduce a major source of GHG emissions, act as cost-containment for California's Cap and Trade program, engage other jurisdictions in a broader effort to address climate change, provide significant environmental and social co-benefits to participating jurisdictions, and likely have long-term benefits to Californians through useful products from preserved biodiversity and increased precipitation in California.

Respectfully submitted,

/s/

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/s/

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cc: Corporate Files