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California Air Resources Board

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Thank you very much for the opportunity to comment on the staff presentation and discussion from the October 21, 2016 Mandatory GHG Reporting and Cap-and-Trade Program Workshop. Bluesource applauds the painstaking work that the Air Resources Board has done over many years to design a program that tackles the global climate issue in a sustainable way. As a company that exists for the purpose of making positive environmental impacts, we are greatly concerned about some recent criticisms of ARB's program design, particularly attacks on offsets and claims made about correlations between Cap and Trade and local air pollution.

Before addressing our concerns, we want to acknowledge the very real problems disadvantaged communities face with respect to local air pollution and our desire to see these problems improve. Disadvantaged communities around the world are *also* facing environmental injustices due to climate change, and the impacts of that problem are just as tangible. Our company is deeply passionate about making positive changes in our local and global communities, and nothing in this letter is intended to minimize the problems caused in disadvantaged communities by any type of pollution. Our concerns, rather, stem from the intermixing of these problems and tactics being taken to advance one cause to the detriment of the other.

Cap and Trade is... and is not...

Cap and Trade is one leg of California's holistic approach to address GHG emissions. Its intent is to lower these emissions across the most impactful sectors of California's economy in a way that does not burden consumers any more than necessary or make California a less competitive place to do business. These two objectives benefit all Californians, particularly those that spend a higher percentage of their income on energy and transportation fuel (typical in low-income households). The environmental benefits are of local *and* global scale as California is subjected to the risks of climate change as are many other communities around the world. Uneconomic solutions, however, could place meaningful cost burdens on these consumers and could even result in job loss in such communities and across California if businesses are forced to relocate out of state due to competitiveness concerns. This would of course have the compounding effect of leakage from California's robust climate goals, lessening the true positive effect of its programs.

Cap and Trade is not, nor was it ever intended to be, a means to address local air pollutants. There are a series of policies in place in California to accomplish this, so to say that Cap and Trade is ineffective at



reducing local air pollutants is like saying a toothbrush is an ineffective hairbrush. It may be a true statement, but a toothbrush was never intended to brush hair. Local air pollutant reductions should be handled by local air pollutant policies.

A greenhouse gas is... and is not...

A GHG emission contributes to global climate change. The emissions governed by Cap and Trade have little or no local health effects, yet they are being blamed for adverse impacts they have no part in causing. Furthermore, just because a facility emits both GHGs and other local pollutants does not mean that the same single action can or should be taken to address both.

An offset is... and is not...

A California offset is a real reduction in GHGs verified to arguably the most rigorous standard the world has seen to date. Moreover, an offset usually creates far more co-benefits than an allowance (or the emission reductions caused by the total number of available allowances being reduced): Forest carbon offsets preserve biodiversity and enhance water quality. Livestock projects reduce odors and provide jobs. ODS projects provide monetary incentives to recycle old, inefficient appliances. The list goes on, but let's look outside of California to see what an offset is really capable of:

Offset projects have a tremendous effect on disadvantaged communities around the world. Bluesource's affiliate, The Paradigm Project, has distributed hundreds of thousands of efficient cookstoves to the world's most poor in east Africa and central America. This effort, funded entirely by offsets, has impacted over 1 million people, saved 30% of household income per family and hundreds of productive hours per family, and has significantly reduced medical visits and even death caused by lower respiratory disease among women and children. If anything, we need more offsets like these in California's program to spur on these types of investments.

An offset is not a get-out-of-jail-free card. Statements have repeatedly been made by those that oppose offsets that since large emitters use offsets as part of their compliance strategy, they do so *instead of* reducing emissions locally. This false conclusion assumes an either/or scenario (either offsets *or* local emission reductions), when in fact it is **impossible** for facilities to just use offsets to meet their compliance obligation. Let us not forget that a mere 8% of a facility's obligation can be met with offsets, whereas the rest must come from allowances, whose decreasing availability over time represents actual reductions from these covered industries mostly *within* California. With large emitting facilities representing the vast majority of total emissions, it is inescapable that these facilities will have to make direct, local reductions as the availability of allowances declines. This will happen as the program is currently designed, even with the use of offsets.



A Preliminary Assessment?

The recently released report, "A Preliminary Environmental Equity Assessment of California's Cap-And-Trade Program," is indeed preliminary and incomplete, yet conclusions are being drawn and actions are being taken as if it is comprehensive and final. The authors acknowledge that "further research is needed before firm policy conclusions can be drawn," yet despite these acknowledgements, attempts are being made to use this report to influence policy conclusions.

Our observation is that this report is far too early and limited in scope to assess how the program is really working. The timeframe only covers 2013-2014, meaning the data doesn't even cover the massive expansion to the fuels sector brought about in the second compliance period. Let's also acknowledge this first compliance for what it is: the very beginnings of a very long-term program. Compliance and flexibility in the early years of the program are at their lowest cost and greatest ease. While critics will point to this as a failure, this was an intentional and critical part of the program design! 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. Let's not point to the first two years of a program designed to take 17+ years to achieve its goals and say that it's not working fast enough or not working at all.

Furthermore, statements, assumptions and conclusions eliminate contributing data or misrepresent contributing factors, leading to erroneous conclusions. For example, increases in emissions from power generation should account for the SONGS closure and drought-induced hydro generation limitations during those years, neither of which were attributable to Cap and Trade. A much more comprehensive and balanced analysis representing the program's full breadth will be necessary to draw accurate conclusions.

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 stylized flourish at the end.

Kevin Townsend
Chief Commercial Officer
Bluesource