

November 17, 2015

Mr. Jason Gray
Manager, Market Monitoring Section
California Air Resources Board
1001 I Street
Sacramento, California 95812

RE: Inclusion of Sector-based Offset Credits within the California Cap-and-Trade Program

Dear Mr. Gray:

Pacific Gas and Electric Company (PG&E) appreciates this opportunity to comment on the Air Resources Board's (ARB) staff whitepaper: "Scoping Next Steps for Evaluating the Potential Role of Sector-based Offset Credits under the California Cap-and-Trade Program, Including from Jurisdictional 'Reducing Emissions from Deforestation and Forest Degradation' Programs" (whitepaper) and associated October 28 workshop.

I. Introduction

PG&E strongly supports ARB's exploration of the inclusion of sector-based offset credits, including Reducing Emissions from Deforestation and Forest Degradation (REDD+) within the Cap-and-Trade Program. PG&E recognizes the need for climate action globally and is encouraged by ARB's continued efforts to create innovative, replicable, and scalable solutions to climate change. Programs like REDD+ can immediately reduce emissions, without waiting for new carbon-reduction technologies to evolve. Sector-based offsets could also play a key cost containment role; allowing California to move forward with its aggressive GHG-reduction targets beyond 2020 while maintaining a healthy economy.

II. Strong Fundamentals

PG&E recognizes the need for clear, robust, and transparent monitoring, reporting and verification (MRV) standards to sustain a sector-based offsets program within Cap-and-Trade Program. PG&E encourages ARB to maintain its traditionally high standards when evaluating and approving offsets for compliance. Doing so is critically important for establishing a model for sector-based offsets that can be replicated and scaled to provide substantial domestic benefits as well as international benefits to developed, emerging, and developing nations. ARB should also consider allowing third-party registries and validators to share the workload and responsibility associated with the inclusion of sector-based offsets to reduce the burden placed on staff. Tapping existing global best-practices could reduce uncertainty, lessen demands on

ARB staff, help jumpstart sectoral crediting, and facilitate linkages to international markets and financing.

III. Cost Containment

PG&E continues to support the use of offset credits as a crucial cost containment mechanism in the Cap-and-Trade Program. PG&E is encouraged by the possibility of using sector-based offsets to address the expected shortfall in offset supply relative to the regulatory eight percent usage limit. PG&E feels that to maximize the supply and potential climate benefits of sector-based offsets, ARB should ensure that nested projects, including reforestation and afforestation projects, be eligible for compliance in tandem with sector-based offsets generated by government programs. PG&E would support reasonable increases to ARB resources as needed for adequate project review and credit issuance of both domestic and international offset projects.

Additionally, PG&E continues to support the approach proposed by the Joint Utilities Group (JUG) during the 2013 rulemaking process. The measure, called the “offset proposal,” proposed that upon depletion of the highest tier of the Allowance Price Containment Reserve (APCR) the Executive Officer would make additional allowances available (through the APCR sale mechanism), in excess of the cap, necessary to satisfy the demand of compliance or opt-in compliance entities at the price set for the highest tier of the APCR in the relevant year. The Executive Officer would use the funds raised by the sale of additional allowances to reduce GHG emissions, with the intent that emissions reductions will be equal to or larger than the number of additional allowances sold. One of the GHG emissions-reduction technologies available to the Executive Officer would be commissioning a third party to obtain and retire high-quality offsets not otherwise eligible to satisfy the compliance obligations of compliance entities. This could be REDD+ supply beyond the usage limit.

IV. Market Design

We commend ARB for working diligently to ensure the environmental integrity of California’s Cap-and-Trade Program. During the October 28 workshop, ARB outlined a series of upcoming workshops to discuss monitoring, reporting, and verification requirements. In addition, PG&E recommends that ARB include a workshop to discuss market design issues, particularly to address how sector-based offsets will integrate with the existing domestic offset credit market. Considerations for the workshop may include the treatment of invalidation risk and the bifurcated usage limits as currently defined in the regulation.

With respect to invalidation, PG&E recommends ARB consider whether sector-based offset buyers should assume the full invalidation risk. Such a requirement could introduce uncertainty, transaction costs, and risk into the market and effectively eliminate the practical use of sector-based offsets by California compliance entities.

With respect to usage limits, the introduction of sector-based offsets will likely further segregate and complicate the offset credit market. PG&E recommends ARB explore market design solutions that promote tradability and fungibility in the offset market in order to simplify the use of offsets for compliance entities and minimize ARB's oversight burden.

V. Conclusion

In conclusion, PG&E is supportive of ARB's efforts to lead the way in advancing innovative climate solutions by creating a market-based system that has reach beyond California's borders and addresses the global need for both GHG emission reductions and improved natural GHG sequestration. To advance California's leadership in GHG reduction beyond California, it is important that California forge partnerships with diverse sector and national representatives. Sector-based offsets have the potential to significantly and rapidly mitigate climate risks, while providing resources to those in developing nations, who are typically the most vulnerable to the effects of climate change and most supportive of promoting healthy and diverse life-sustaining ecologies. For all these reasons, PG&E looks forward to further collaboration with ARB on the inclusion of sector-based offsets in the Cap-and-Trade Program.

Sincerely,

/s/

Claire Halbrook
Climate Policy Principal
Pacific Gas and Electric Company