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**Catherine H. Reheis-Boyd**  
President

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Via web: <http://www.arb.ca.gov/lispub/comm/bclist.php>

Jason Gray (Jason.gray@arb.ca.gov)  
Air Resources Board  
1001 I Street,  
Sacramento, CA 95814

**Subject: WSPA Comments on ARB's Evaluation of Potential Sector-Based Offset Credits**

Dear Mr. Gray:

The Western States Petroleum Association (WSPA) representing 25 companies that explore for, develop, refine, market and transport petroleum and petroleum products in the Western U.S. appreciates the opportunity to comment on the Air Resources Board's (ARB) evaluation of the potential for sector-based offset credits in California's Cap and Trade Program.

WSPA agrees with ARB that in order to ensure adequate cost containment in the Cap and Trade program, there is a growing need to create additional mechanisms to generate offset credits. As ARB acknowledged during its October 28, 2015 public workshop, existing crediting mechanisms may not generate sufficient offsets to meet demand in the second compliance period, and offset supply is "expected to be insufficient to allow use of the 8% quantitative usage limit in the third compliance period."<sup>1</sup> ARB also acknowledges that most emissions in California are already regulated. That fact, coupled with the Cap and Trade requirement that any offsets must be additional - not only to emission reductions already required by law, but also to reductions that "would otherwise occur under a business as usual scenario" - greatly constrains opportunities for generation of credits through domestic offset projects.

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<sup>1</sup> Evaluating the Potential for Sector-Based Offset Credits in California's Cap-and-Trade Program, California Air Resources Board, October 28, 2015, slide 29.

1415 L Street, Suite 600, Sacramento, California 95814  
(916) 498-7752 • Fax: (916) 444-5745 • Cell: (916) 835-0450  
[cathy@wspa.org](mailto:cathy@wspa.org) • [www.wspa.org](http://www.wspa.org)

Thus, absent alternative means of generating offset credits in the near future, it is reasonable to expect increases in both offset prices and allowance prices for Cap and Trade regulated entities. This outcome would be at odds with the intent of AB 32 that greenhouse gas reduction regulations must be cost-effective, and it would undercut the credibility of California's Cap and Trade program as a model for other jurisdictions.

For these reasons, WSPA supports in concept ARB's efforts to develop regulations authorizing the use of sector-based crediting mechanisms that are contemplated, but dormant in the current Cap and Trade regulation. As the title indicates, ARB's draft white paper, "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 (October 19, 2015), focuses heavily on REDD as one category of sector-based programs that could be ripe for purposes of generating offset credits under the California Cap and Trade program during the third compliance period. While REDD may be the most developed category to date, it should not be the only category approved for sector-based offsets. WSPA encourages ARB to work with Cap and Trade program stakeholders to identify and develop additional opportunities for generating sector-based offset credits.

In addition, while we understand the need for regulatory mechanisms to maintain the integrity of sector-based programs and offset credits, it is important to recognize that an overly prescriptive, complex approach is likely to discourage offset development, impacting supply and reducing the cost effectiveness of the program. ARB should exercise care in program design to ensure that REDD and any other sector-based offset credit programs approved in the future are attractive to host jurisdictions.

ARB should also preserve the flexibility to address sector-specific circumstances in the design of future programs. Rather than creating a one size fits all approach, we encourage ARB to develop each potential sector based program in a fit for purpose approach. These considerations will help achieve California's vision of stimulating global GHG emission reductions through its Cap and Trade program while delivering meaningful cost containment benefits to in-state regulated entities.

WSPA looks forward to working with ARB on amendments to the Cap and Trade regulation to accommodate REDD and future sector-based offset programs. Should you have any questions, please contact me at this office or Mike Wang of my staff (cell: 626-590-4905; email: [mike@wspa.org](mailto:mike@wspa.org)).

Sincerely,



Cc: Ms. Rajinder Sahota, ARB ([rsahota@arb.ca.gov](mailto:rsahota@arb.ca.gov))