



**BP America, Inc.**

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**Via Email**

Rajinder Sahota  
California Air Resources Board  
1001 I Street, P.O. Box 2815  
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Subject: BP Comments on the Concepts Discussed at the 10/21 Cap and Trade Workshop

Dear Rajinder:

BP America, Inc. submits these comments on CARB's October 21<sup>st</sup> public workshop, particularly on the AB 197 & Post-2020 Cap and Trade Program Design section.

As California looks toward meeting its longer term GHG reduction goals, it's more important than ever that the focus be on the most efficient and cost effective approaches. BP is concerned about the proposals which would have the effect of undermining needed cost effectiveness of the state's climate change programs – presenting grave challenges to the long-term sustainability of program.

**Maintain and Expand the Benefits of Offsets**

BP finds the proposal to reduce the 8% offset limit extremely concerning, especially given the myriad analyses (including some performed by CARB) that clearly demonstrate the benefits of the use of offsets. As emission reduction goals become much more challenging, the need for and benefits of cost containment will become more, not less, important. We therefore suggest that CARB consider raising the offset limit, not lowering it, including a separate and incremental carve out for use of sector-based offsets.

Moreover, in order for offsets to provide their full cost containment benefit, they must be available to the market and provide an attractive compliance alternative to regulated parties. In addition to the previously mentioned concerns about quantitative limits, there is also the potential that even if offsets are available, some regulated entities may not be inclined or able to use them because of many of the offset program's design elements. Failure by some parties to utilize offsets impacts all market participants. Therefore in addition to increasing the quantitative limit on the use of offsets, CARB should:

- 1) Work expeditiously to create a clear timeline and path forward for the inclusion of sector based offsets, such as through the REDD+ protocol.
- 2) Create a system to carry over to new compliance periods and distribute amongst all market participants, the ability to use offsets unused by the overall market in a previous compliance period.

- 3) Reduce the perceived risks to the use of offsets by improving and bringing certainty to the invalidation process.
- 4) Reduce uncertainty by avoiding making major changes to protocols without early and proactive outreach to stakeholders – as was done in the recent update to the Forestry Protocol.
- 5) Overhaul the time-consuming process for approval of new offset protocols and approval of individual projects within existing protocols.

California has an opportunity to contribute to the creation of a class of global carbon entrepreneurs by sending a signal to every corner of the globe that carbon reductions have value. The offset program has already resulted in engaging and benefiting vulnerable communities such as Native American Tribes. California's encouragement of the development of high quality offsets in other states and countries – and acceptance of these verifiable emission reductions - demonstrates that we are willing to not only encourage these actions but to credit them - and in so doing reduce the costs of these policies on our citizens here at home. The offset program must be expanded and improved, not reduced.

### **Avoid Marginalizing the Most Cost Effective Approach**

We are also concerned about proposals which would reduce the use and benefits of the state's cap and trade program. CARB appears to be instead considering increasing the use of expensive and non-scalable command and control measures at a time when the state should instead be doubling down on the most cost effective approaches. This is not 2006. The state has several years of experience operating under both a market-based approach and command and control measures. There is clear evidence that, even with the many improvements that can be made, the cap and trade program is by far the most cost effective approach to reducing GHG emissions. A market-based approach, such as an improved and expanded version of the state's cap and trade system, is the only policy alternative that provides the assurance of meeting a specific emissions reduction target - while delivering this outcome at the lowest cost. A market-based approach can react quickly to evolving technologies and new approaches in a way that a regulatory approach or series of complementary policies simply cannot.

As California looks toward the meeting its longer term goals, it's more important than ever that the focus be on the most efficient and cost effective approaches. The state's cap and trade program should be the backbone of these efforts – not simply a backstop. Continuing, or doubling down on the current path which relies heavily on complementary policies - we believe greatly increases the potential for the state's efforts to be both expensive and unsuccessful.

### **Protect Sensitive Market Data**

The staff presentation on October 21<sup>st</sup> suggested that CARB may be considering releasing entity level market data, specifically for retirements by quantity, vintage and instrument type (slide 21). BP strongly opposes the release of any entity specific data, pertaining to retirements or otherwise, as this would allow other participants to back calculate into important proprietary information such as refinery production or import/export activity. In discussion at the workshop (slide 23), it was also suggested that CARB staff are considering the publication of additional market data including a reference to a proposal from an EMAC report. The EMAC approach suggests publishing information on the net compliance position of entities within the market by providing an index of concentration of net positions (with identities masked). BP sees a number of problems with this approach, including:

- Many entities acquire allowances in order to hedge future obligations, however the timeframe each entity chooses to forward hedge will vary based on individual risk appetite. Therefore, applying a uniform compliance window assumption in order to calculate the net position for all entities, even within a sector, will produce highly inaccurate results.

- A snapshot of an entity's account at any given point in time cannot accurately reflect that entity's intention or requirement for compliance as future purchases and sales may not be reflected. For example, some entities will hold inventory in their own account contracted for delivery to a counterpart at a later date while other entities will appear to have a short inventory position though they have contracted with others to purchase their needed requirement at a future date.
- The EMAC logic suggests the measure would help identify when entities may be holding a high share of the market, however CARB already has a safety valve on such behavior with the presence of the holding limits.
- Holdings by account can vary significantly over time due to the above activities and timing of transfers. Taking a snapshot could provide misleading information that if wrongly interpreted could engender market volatility – the opposite of the intended affect.

### **Conclusion**

In order to use its leadership in a way that increases the potential for a critical mass of followers – California must successfully encourage action by others. Currently the state seems to be suffering from an identity crisis with respect to its role in addressing climate change. On one hand, the state's policymakers acknowledge the global nature of the problem, the need for others to act and the role of the state as an example in effective policymaking. On the other hand, state policymakers seem intent on advancing policies that compel in-state emission reductions and that erect very high hurdles before the efforts of other jurisdictions or carbon entrepreneurs outside the state are recognized and credited. The state must decide whether it is internationalist or isolationist when it comes to climate change. As Berkeley economist Severin Borenstein has said, "It's time to make our Global Warming Solutions Act about global solutions"<sup>1</sup>.

Sincerely,

Ralph J. Moran  
Sr. Director, Governmental & Public Affairs  
BP America, Inc.

cc (via email): Richard Corey  
Edie Chang  
Steve Cliff

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<sup>1</sup> Severin Bornstein, Blog post 4/7/14, Energy Economics Exchange, University of California at Berkeley, Haas School of Business