



April 8<sup>th</sup>, 2016

**Ms. Rajinder Sahota**  
**California Air Resources Board**  
**1001 I Street**  
**Sacramento, CA 95814**

**Re: SMUD Comments on Sector Based Offsets Pursuant to March 22<sup>nd</sup> Workshop**

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. SMUD submitted arguments to this point on the 2013 Scoping Plan, the 2013 Cap and Trade regulation amendments, and pursuant to the October 28, 2015 workshop on sector-based offsets inclusion. SMUD has also verbally supported inclusion of sector-based offsets at many ARB workshops and board meetings, most recently at the March 22<sup>nd</sup> workshop. SMUD has commented in favor of including REDD sector-based offsets for two primary reasons: 1) enhancing California’s leadership on addressing Climate Change around the world; and 2) cost-containment within the Cap and Trade structure in California.

SMUD believes that it 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. California can provide leadership on the question of providing investment funds for important REDD GHG reducing projects in partner jurisdictions issue by opening the Cap and Trade program to sector-based offsets. This action spreads attention to the problem of global climate change beyond the relatively narrow confines of California, broadening ARB’s leading efforts to address this major world problem.

SMUD also believes that adding REDD offsets to the offset supply available to California, while preserving environmental integrity by ensuring those offsets are extremely well vetted, acts as a “leading”, rather than “lagging” tactic to contain Cap and Trade costs in California. A leading cost-containment measure addresses demand and supply for compliance instruments prior to dramatic cost-increases, acting to help keep prices stable prior to a crisis (in this case by increasing available supply). A lagging cost-containment measure addresses demand and supply for compliance instruments after prices have risen dramatically. The Allowance Price Containment Reserve (APCR), which adds supply to the market when prices escalate well beyond present levels, is the primary example of a lagging cost-containment measure that has been adopted in California.

Reducing the expected shortfall in offset supply in the second and third compliance periods by including additional types of offsets, such as the REDD sector-based offsets under consideration, would help to ensure that Cap and Trade compliance instrument prices remain reasonable to Californians in all locations and all income levels. SMUD continues to support an adoption schedule that allows inclusion of sector-based offsets in the Cap and Trade market late in the second compliance period, as well as in the third compliance period and in post-2020 compliance periods, to encourage rapid development of positive programs such as REDD offsets.

With respect to the details of including sector-based offsets covered in the March 22<sup>nd</sup> workshop, SMUD supports:

- Phasing in the sector-based offset structure, starting with the type of emission reductions that are farthest along and easiest to verify at this time, in order to get an initial sector-based offset structure in place for the Cap and Trade program as quickly as is feasible while still maintaining offset integrity. SMUD understands that this may initially limit acceptable sector-based offsets to changes in the rates of deforestation and forest degradation in partner jurisdictions. Notwithstanding the initial structure, SMUD thinks that work on bringing the full potential benefits of sector-based REDD plus offsets should continue apace. This would include adding on a timely basis additional carbon offsets associated with deforestation and forest degradation changes and with carbon stock enhancement as this becomes a more standard measurement structure.
- Beginning with a crediting pathway focused on a broad partner jurisdiction crediting structure, again in order to get an initial sector-based offset structure in place for the Cap and Trade program as quickly as is feasible while still maintaining offset integrity. Again, work on expanding the types of sector-based offsets to include nested projects should continue apace. With respect to phasing, SMUD believes that a protocol could be adopted that sets integrity and measurement standards that can be met by a variety of sector-based offset practices over time, including nested projects when appropriate, lessening the need for the subsequent adoption of additional or modified protocols.
- The proposed 10-year historical reference level for jurisdictions with a relatively standard deforestation history, for which a baseline or reference level of deforestation prior to action can be robustly established. For jurisdictions with relatively low historic deforestation but high carbon stocks, SMUD supports keeping the same 10-year reference level. This may imply limited availability of offsets from these jurisdictions, but SMUD believes it is important that the reference level be historically based to a point in time that would prevent actors

within the jurisdiction from artificially accelerating the deforestation rate in order to raise the baseline. Moreover, SMUD suggests that a baseline be set at a level sufficient to incent an economic return from the sale of offsets to finance improved forest practices, even where practices have been reasonably good historically. Accordingly, SMUD suggests that ARB could consider a crediting baseline for these jurisdictions that equals the reference level, or perhaps is even higher than the reference level to reflect average deforestation in surrounding jurisdictions, in order to provide some incentives and funding to continue good forest preservation practices in those jurisdictions. Such consideration should include adequate documentation of comparison to adjacent jurisdictions, etc., to preserve the integrity of the offsets.

- Consideration of only above-ground carbon stocks as proposed, again because SMUD supports an initial sector-based offset structure in place for the Cap and Trade program as quickly as is feasible while still maintaining offset integrity. As processes and methods for adequately measuring and verifying below ground stocks, etc. are more developed, SMUD supports adding these to the protocol when identified robustness criteria are met, with minimum additional adoption requirements.
- Establishing a crediting baseline that represents a simple structure with conservative offset crediting, while allowing a jurisdiction to begin providing credits relatively early after a forest practices change. SMUD leans toward Option 1 presented at the workshop, as it allows early offset creation, provides a continuous offset-related incentive for reductions in emissions, and appears to be a simpler structure than Option 2.
- A robust measurement, reporting and verification process, meeting quality standards established in the sector-based offsets protocol, that ensures transparent information available about the offsets generated. The standards proposed in the staff presentation seem reasonable.

For these reasons, SMUD encourages the Air Resources Board to continue to expeditiously develop protocols to include sector-based REDD offsets in the Cap and Trade program. Such action will demonstrate leadership by California on the world stage, while acting as cost-containment for California's Cap and Trade program. There are also significant environmental and social co-benefits to participating jurisdictions, and likely additional long-term co-benefits to Californians. These could include useful products that are derived from the preserved biodiversity in areas with maintained and enhanced tropical forests, and even increased precipitation in California (as some models show from maintained and enhanced tropical biomass).

Respectfully submitted,

/s/\_\_\_\_\_  
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cc: Corporate Files (LEG 2016-0282)