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BEFORE THE
AIR RESOURCES BOARD
OF THE
STATE OF CALIFORNIA

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY COMMENT ON USE OF OFFSETS UNDER PROPOSED CALIFORNIA CAP AND TRADE PROGRAM

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I. INTRODUCTION AND SUMMARY

The Southern California Public Power Authority ("SCPPA")[1] respectfully submits this comment on agenda item 10-2-4, "Public meeting to provide an overview of the role of offsets in the greenhouse gas cap-and-trade program", for the meeting of the California Air Resources Board ("ARB") on February 25, 2010.

In summary, SCPPA recommends that:

- The validity of high-quality offsets, and their associated benefits, should be recognized.
- Even if a quantitative limit is imposed on international offsets, no such limit should be imposed on offsets from projects in California, which reduce emissions within California, provide an incentive to develop low-emissions technology within California, provide co-benefits within California, and can be enforced by the ARB.
- If a phased approach is taken to coverage under the California cap-and-trade program, with the transport sector included in 2015, the entities covered from 2012 should have the benefit of a less restrictive percentage limit on their use of offsets than those covered only from 2015.

[1] SCPPA is a joint powers authority. The members are Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, Los Angeles Department of Water and Power, Imperial Irrigation District, Pasadena, Riverside, and Vernon. This comment is sponsored by Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, Imperial Irrigation District, Pasadena, and Riverside.

II. QUALITY OFFSETS REPRESENT REAL EMISSION REDUCTIONS AND HAVE VALUABLE CO-BENEFITS.

A. ARB's offset quality criteria will ensure real emission reductions.

AB 32 requires emission reductions under a California cap-and-trade system to be real, permanent, quantifiable, verifiable, enforceable and additional (section 38562(d)). These requirements are stringent and they are important. All offsets that comply with these standards, as elaborated by the ARB on various occasions in 2008 and 2009, will constitute actual emission reductions, not dubious hypothetical reductions. Such offsets contribute just as much to combating global climate change as emission reductions by compliance entities in California.

B. The Clean Development Mechanism satisfies AB 32 requirements.

Compliance with the AB 32 standards is possible using the verification methods of some existing offset systems. As recognized by the European Union ("EU") Emissions Trading System ("ETS"), offsets from systems backed by law – whether international, national or regional – are likely to be more credible and reliable than offsets from voluntary emission reduction standards.[2] Currently the Clean Development Mechanism ("CDM") under the Kyoto Protocol is the largest and best-established offset system backed by law (international law, in this case).

Other than variants on the CDM such as Gold Standard CDM projects, no offset system is more stringent than the CDM in terms of requirements for additionality, monitoring, verification, and validation. The detailed CDM rules, established under international law, address each of the AB 32 criteria for emission reductions and are regularly updated to address issues as they arise. For example, at the Copenhagen conference in December 2009 it was agreed to

[2] Commission Staff Working Document – Accompanying document to the Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC so as to improve and extend the EU greenhouse gas emission allowance trading system – Impact Assessment, page 144, January 23, 2008, available at http://ec.europa.eu/environment/climat/emission/pdf/com_2008_16_ia_en.pdf.

develop and implement procedures for closer monitoring of the performance of the independent entities that verify emission reductions.[3]

In terms of enforcement, the ARB is able to rely on the monitoring and enforcement methods of the CDM Executive Board and its Compliance Committee. These bodies carefully review proposed offset projects. They also require replacement emission reductions to be provided if emission reductions are found to be incorrectly certified.

C. Offsets have valuable co-benefits.

Wherever they are undertaken, high-quality emission reduction projects have valuable co-benefits, such as pollution reduction and local employment. Indeed, the extent of co-benefits may be greater for offset projects in developing countries, where there are few environmental and health controls in place, or such laws are poorly enforced, as compared to developed countries.

Allowing the use of international offsets under the California cap-and-trade program will direct funds towards developing countries for offset projects that reduce emissions cost-effectively. These projects can also provide increased incomes and sustainable livelihoods for developing nation populations and a host of other benefits such as reduced odors and reduced soil and water pollution from landfills, livestock, and food processing facilities (in the case of methane capture/ bio-digester projects).

Governor Schwarzenegger has shown an understanding of the benefits of offset projects in developing countries, by entering into memoranda of understanding in relation to forestry projects with state governors in developing countries such as Brazil.

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[3] Paragraph 17 of the decision at CMP.5 "Further guidance relating to the clean development mechanism", available at http://unfccc.int/files/meetings/cop_15/application/pdf/cmp5_cdm_auv.pdf.

If the developing countries do not receive funding though offset programs, those countries may not receive enough funding from other sources to halt deforestation and switch to cleaner energy and more efficient production methods. As a recent article in the Los Angeles Times notes, cap and trade programs in the United States that accept international forestry offsets will be a source of funds that can be used "to police conservation areas, improve land fertility to reduce demand for deforestation and help forest dwellers find better ways to make a living than by making charcoal."[4]

III. USE OF OFFSETS FROM CALIFORNIA PROJECTS SHOULD BE UNLIMITED.

Even if the ARB elects to limit the use of offsets from outside of California or the Western Climate Initiative to 49 percent of emission reductions, as proposed in the Scoping Plan, there is no reason to impose the same limit, or any limit, on the use of offsets from emission reduction projects located within California.

The limit on offsets for the third phase of the EU ETS, commencing in 2013, provides a model for the ARB to consider in determining whether to impose a limit on California offsets. Similar to the Scoping Plan's 49 percent limit on offsets, the EU's plan for the third phase of the ETS limits offsets from outside the European Union to 50 percent of emission reductions to be obtained during 2008-2020.[5] However, there is no limit on offsets from emission reduction projects in uncapped sectors within European Union countries.[6]

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[4] M. Roosevelt, "Saving the Amazon may be the most cost-effective way to cut greenhouse gas emissions", February 21, 2010, available at http://www.latimes.com/business/la-fi-cover-amazon21-2010feb21,0,3432052.story.

[5] Article 11a of the consolidated Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC, as amended by Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009 ("EU ETS Directive"), available at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:2003L0087:20090625:EN:PDF.

[6] Article 24a of the EU ETS Directive.

The ARB may wish to consider this precedent for application in California's cap-and-trade program. California-based offset projects would lead to emission reductions within California and would provide co-benefits within California. Modeling by the University of California at Berkeley, presented by the Union of Concerned Scientists in March 2009, found that in-state offset projects would reduce methane and several other toxic gas emissions in California, assuming that offset projects target the agricultural and waste sectors. Additionally, the employment-creation benefits and associated economic benefits of offset projects would remain within California.

The ARB would also be able to directly enforce its standards with Californian offset projects.

Without a quantitative limit on Californian offsets, there would be a greater incentive to develop and deploy clean technology in sectors within California that are not covered by the cap-and-trade program. On the other hand, the cap-and-trade program's coverage of 85 percent of California's economy-wide emissions limits the extent of the uncovered sectors. As a result, there would not be an excessive number of Californian offsets.

IV. OFFSET LIMITS SHOULD BE LESS RESTRICTIVE FOR FIRST COMPLIANCE PERIOD ENTITIES.

Another EU ETS design element that should be considered is the way in which the EU translates its "50 percent of 2008-2020 emission reductions" limit on the use of offsets from outside the EU into percentage limits on the use of offsets by covered entities. The EU provides different percentage limits for entities that are brought into the EU's cap-and-trade program in an earlier compliance period compared to entities that are brought into the program during a later period. Article 11a of the EU ETS Directive provides for caps on the use of international offsets

to be set according to the following guidelines, as long as the overall limit of 50 percent of EU reductions is maintained:

- for "existing operators" (those entities already covered by the EU ETS), for the period 2008-2020, a minimum of 11% of the entities' allocation of allowances (covering the majority of their historical emissions) throughout 2008-2012;
- for new entrants, and entities in sectors that commence being covered in 2013, for the period 2013-2020, a minimum of 4.5% of the entities' emissions throughout 2013-2020.

As discussed in SCPPA's comments on the Preliminary Draft Regulation, SCPPA recommends that all sectors be included in California's cap-and-trade program in 2012 rather than deferring the inclusion of the fuels sectors to 2015.

However, if the staged approach to coverage is to be retained, the ARB should consider following the EU precedent and allow entities that are covered during the 2012-2014 period to have a higher percentage limit on their use of offsets, with entities that are brought into the program in 2015 being subject to a lower percentage limit. Allowing entities that are brought into the program earlier to have the benefit of a higher percentage limit would reflect the fact that entities that are covered during the first compliance period bear a greater burden and have less time to adjust by cutting their own emissions, while those that are brought into the program later have three additional years unencumbered by the cap-and-trade program.

California's exact percentage limits on the use of offsets by individual entities would be different from the EU's percentage limits as California's total 2012-2020 emission reductions are different from the EU's 2008-2020 emissions reductions, but the EU precedent for imposing different limits on sectors that are brought into the program at different times should be applied in California if some sectors are to remain outside the cap-and-trade program until 2015.

V. CONCLUSION

SCPPA urges the ARB to consider these comments when deliberating on the role of offsets under the proposed California cap and trade program. SCPPA appreciates the opportunity to submit these comments to the ARB.

Respectfully submitted,

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