

**Comments of the Western Power Trading Forum
To the California Air Resources Board
On Linking to other
Cap and Trade Programs**
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The Western Power Trading Forum¹ (WPTF) appreciates the opportunity to provide input to the California Air Resources Board (ARB) on linking California's cap and trade program to other trading programs. In general, WPTF considers linkage of California's cap and trade program to other programs imperative because a broader program will reduce costs and increase market liquidity. In determining whether to link to a particular cap and trade program, ARB should focus on the narrow question of whether rules for cost-containment in the other program have the potential to undermine the environmental effectiveness of California's cap.

Our comments on the questions posed by ARB staff at the July 28th workshop are provided below.

Q: Which implications—advantages or disadvantages—are the most important for ARB to consider when evaluating whether to link with another program?

Linking of California's cap and trade program to other programs will be beneficial to the extent that it increases the number of participants in the market and the quantity of compliance instruments (allowances and offsets) available to capped entities. While the effect of linking on individual and overall compliance costs in California depends on the design of the other program(s) and the relative GHG mitigation costs in the two programs, WPTF expects that compliance costs under a California-only program will be quite high. It is therefore likely that in most cases, linkage will result in lower compliance costs for California entities.

¹ WPTF is a diverse organization comprising power marketers, generators, investment banks, public utilities and energy service providers, whose common interest is the development of competitive electricity markets in the West. WPTF has over 60 members participating in power markets within the WCI member states and provinces, as well as other markets across the United States.

At the July 28th meeting, ARB staff laid out their initial thinking regarding criteria that other cap and trade systems (or offset programs) must meet to be allowed to link to the California system. These criteria were:

- Comparable stringency to the California program in terms of the level of current and future emission caps
- Similar reporting requirements and methods to ensure that “a ton is a ton” across both systems
- Similar capability and effectiveness in enforcing program requirements.
- Similar rules regarding cost-containment provisions, such as banking, and offsets, prohibition of a safety valve and borrowing

Staff also indicated that other features, such as similar allowances distribution (i.e., auction versus free allocation) and program scope (i.e. same sectors under a cap) might also be considered as linking criteria.

WPTF broadly supports linkage to other programs for the reasons stated above and cautions ARB against establishing multiple criteria that would hinder linkage to other programs. Instead, ARB should focus on the narrow question of whether linkage of California’s cap and trade program to another particular program would impair the environmental effectiveness of California’s cap and trade system by undermining the emission cap.

Applying this narrow focus leads WPTF to question several of the criteria identified by ARB as potentially necessary for linkage. For example, program stringency (the level of the cap) is not appropriate as a linking criterion, because the same overall level of emission reductions will be achieved regardless of whether the programs are linked or not. Linkage to a program with a less stringent cap may result in a lower level of emission reductions achieved

within California, but the overall benefit to the atmosphere will be the same. Similarly, differences in program scope should not prohibit linkage, since the level of emission reductions achieved under both programs will be the same regardless of whether the programs are linked or not.

The method(s) for distribution of allowances in other programs should also not be a criterion for linkage. Distribution methods will determine who bears the costs of emission reductions within a particular program, but it will not affect the overall level of emission reductions achieved.

WPTF considers that out of the elements identified by ARB, only the rules for cost-containment in the other program and the provisions for monitoring and enforcement have the potential to undermine California's system. In particular, if the other program contains a price cap/safety-valve, allows a greater quantity of offsets to be used, or applies less rigorous standards for offsets, then the overall level of reductions achieved could be lower if the programs are linked. ARB should therefore carefully evaluate each program's cost-containment rules in determining whether to link. With respect to reporting, verification and enforcement, ARB should not require that other programs have identical requirements and procedures, but only that they are sufficiently rigorous to provide confidence in reported emissions.

Q: Beyond its WCI partners, to which programs should California consider linking?

WPTF supports linkage of the California system to other regional systems within the United States, such as the Regional Greenhouse Gas Initiative. However, we note that full linkage with the European and United Nations systems is not possible at this time, due to the fact that California emission allowances would not be recognized and accepted by those programs.

While we would support unilateral linkage of California's trading system with international programs, this should not be high priority. Development of a national GHG reduction program is a preferred approach to both link the US states in GHG reduction efforts and to engage in the international arena.

Q: What kind of links (bilateral, unilateral, etc.) should California establish?

California's determination to accept allowances from other US programs should be made independent of whether the other program agrees to link with California's program. While bilateral linkage would be desirable, as a practical matter, we do not see how California could restrict the use of its allowances and recognized offsets in other programs, as this is determined by the rules of that program.

At this point in time, linkage with international programs could only be unilateral, as California offsets could not be used by other countries to meet Kyoto Protocol commitments due to the fact that the US is not a Party to that agreement. While ultimately, WPTF believes that linkage of a California program with other international programs will be beneficial, we believe such linkage should and will occur as the federal program is developed, and should therefore not be a priority for the state.

Q: What details on linkage should be included or excluded from the regulatory language?

Regulatory language should encourage linking of California cap and trade program with other programs, provided that such linkage does not undermine the environmental effectiveness of the emissions cap. Regulatory language should not specify programs for linking, nor elaborate

specific criteria for linking. Instead, ARB should evaluate programs for linking on a case by case basis.