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Mr. Kevin Kennedy
Office of Climate Change
Air Resources Board
10001 I Street
Sacramento, CA 95812

RE: Sempra Energy Comments Regarding Linking California's Cap-and-Trade Program to Other Greenhouse Gas Trading Programs on July 27, 2009

Dear Mr. Kennedy:

ARB's presentation points out that linking can be an important mechanism to lessen economic impacts by broadening the marketplace and thereby increasing liquidity and cost control. Sempra Energy would encourage ARB to view a broad and liquid-trading marketplace as necessary to accomplish the goals of **global** Greenhouse Gas (GHG) reduction, as well. ARB's GHG regulations and other California programs should closely follow the Western Climate Initiative (WCI) recommended measures and promote bilateral linking with WCI partners and ultimately to the Federal program. However, to actively encourage global efforts to reduce GHG, California should explore all opportunities to link bilaterally with other worldwide efforts to reduce GHG emissions.

Even where greenhouse gas regulations are dissimilar to California and WCI programs, there are credible offset opportunities available. Where offsets are available but regulatory structure is dissimilar, California should provide limited linking to states or nations using a bilateral offset linkage mechanism. Given the wealth of offset opportunities outside California, cap-and-trade sector businesses should be given opportunities to purchase offsets qualified by other regulatory entities to meet GHG reduction requirements up to the limit established by ARB. Although it is important that emissions offsets be real, additional, permanent, and independently verifiable, there is no need for California to exercise independent enforcement authority outside of California if other GHG reduction programs have adequate enforcement mechanisms in place.

RESPONSES TO QUESTIONS

1) Beyond its WCI partners, to which programs should California consider linking?

While AB 32 mandates that ARB facilitate the development of integrated and cost-effective regional, national, and international GHG reduction programs¹, California should not seek to establish full reciprocity and bilateral linking outside of WCI at this time. Sempra Energy will support bilateral linking to the Federal program. Given that the full expansion of the California cap-and-trade program does not occur until 2015, and because a Federal program is potentially on the horizon, Sempra Energy recommends the discussion of bilateral linking should be postponed until after the California cap-and-trade market is in place. However, California should immediately partially link by allowing verified offsets to be used in California from any other existing program which can demonstrate that its offsets are real, additional, and permanent.

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

All links should be bilateral, but limited to the use of offsets to be used in California, at this time. The limitation to offsets does not require design similarities as would be required in full bilateral linking. The European Union, New Zealand, and Australia have expressed interest in bilateral linking because of compatible regulatory schemes. However, allowing offset purchases from these systems into California's allowance trading scheme through limited linking is an appropriate first step. European Union ETS, Norway ETS, Chicago Climate Exchange, and Japanese voluntary ETS all use offsets generated through the Clean Development Mechanism (CDM)². Switzerland, New Zealand, Canada, and Australia, also plan to use offsets generated through the CDM. Instead of creating a separate ARB offset certification, California should be willing to use offsets certified by the other established regulatory structures that are seeking GHG reductions worldwide.

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

There needs to be similarities in definitions and reporting requirements to characterize emission reductions to link to another GHG reduction program. ARB will need to understand how other programmatic elements such as adherence to targets and the use of safety valves affect California's program. But as stated previously, Sempra Energy believes it is premature for California to fully link to other GHG reduction programs other than those in the WCI, except with regard to acceptance of offsets.

With regard to limited offset linking, cost and simplicity would suggest there is no reason to create a complicated, separate ARB program for offsets developed outside California, when existing GHG reduction programs have proper safeguards in place. It is suggested that ARB accept offset standards of other GHG trading organizations unless there is a demonstrated substantial deviation from the AB 32 standards for offsets.

¹ Assembly Bill No. 32, Section 38564.

² Workshop on Aviation and Carbon Markets, Erik Haites, Montreal, June 19, 2008

4) **What details on linkage should be included or excluded from the regulatory language?**

The regulatory language should clearly specify the conditions precedent to full bilateral linking to another GHG reduction program. The clearer the regulations, the easier for partners it will be to determine why programs should be linked or de-linked, thus removing uncertainty. The functioning of the markets is improved when regulatory uncertainty is minimized. Limited linking through accepting offsets approved by other GHG reduction programs is less dramatic and should be allowed in the regulations. Bilateral linkage should be allowed for any Federal program that does not itself preempt state cap-and-trade programs or allows previously issued state allowances for a period of time.

Thank you for considering these comments.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'A. D. King', written in a cursive style.

c: Ms. Lucile Van Ommering
Mr. Stephen Shelby
Mr. Sam Wade