Comments from NextEra Energy Resources to ARB on the June 22, 2010 public workshop entitled: "Update on Offsets and Linkage In a California Cap-and-Trade Program"

NextEra Energy Resources[1] (NextEra Energy) is a leading clean energy provider with over 18,000 MW of natural gas, wind, solar, hydroelectric and nuclear power plants in operation in 26 states and Canada. We are an affiliate of a regulated utility, Florida Power & Light Company located in southern Florida. Within the Western Electricity Coordinating Council (WECC)[2], NextEra Energy affiliates own and/or operate 1550 MWs of wind, 310 MWs of concentrated solar thermal, 500 MW of combined cycle natural gas, and 44 MWs of coal generating capacity. Our company brings a unique perspective to the climate change discussion and has specific experience in the voluntary renewable energy markets and the RGGI cap and trade program. We have looked at the issues surrounding climate change programs from both the regulated and unregulated perspective as well as from the view of merchant and contracted assets. Our corporation is committed to advancing climate change policies and has actively participated in the development of Regional Greenhouse Gas Initiative (RGGI) protocols in the Northeast, Midwestern Governor GHG Accord, California's implementation of the Global Warming Solutions Act of 2006, as well as all federal GHG reduction efforts.

NextEra Energy has always supported (comments submitted to ARB and WCI) the inclusion of a robust offset system as a way to keep compliance cost low as well as to provide options for regulated entities to meet compliance when they run out of technological options to reduce GHG emissions. We agree that any certified offset should be a real reduction in GHG emissions and meet stringent criteria in order to maintain the integrity of the program. We would support the use of the Climate Action Reserve (CAR) offset protocols as a basis for ARB's own protocols. ARB should utilize the multiple years worth of work and experience of CAR rather than re-invent the wheel. Other protocols may provide ARB with a tool to either standardize CAR protocols against or fill in subject areas that CAR has not fully developed yet.

1 NextEra Energy Resources, LLC and its affiliates NextEra Energy, Inc., Florida Power & Light Company each have subsidiaries and other affiliates with names that include FPL, NextEra Energy Resources and similar references. For convenience and simplicity, NextEra Energy Resources, NextEra Energy Inc, and FPL as well as terms like Corporation, Company, our, we and its, are sometimes used as abbreviated references to specific subsidiaries, affiliates or groups of subsidiaries or affiliates. The precise meaning depends on the context. NextEra Energy Resources and some of its affiliates were formerly known as FPL Energy.

2 The Western Electricity Coordinating Council region encompasses the interconnected power grid of the Western states, provinces, and a small part of Mexico.

One of the major issues the offset program will face is supply of viable offsets. The ARB's insistence that any entity that submits a certified offset for compliance reasons will still be hold the risk of a lingering compliance obligation could undermine the viability of the program. This idea of buyer liability could damage the offset program. In our opinion, once an offset is certified according to ARB's protocols it should not be revocable. The certification process should be developed to approve only real reductions and any lack of confidence in that certification system should not be born as an additional risk by entities with a compliance obligation. Entities that go into the marketplace and purchase ARB certified offsets should have the assurance that these offset are real and permanent. If there is a risk that an offset credit could be null and void at a future date, entities will pay more and buy allowances either at auction or the secondary markets and avoid the offset market all together. The introduction of this added element of risk will greatly reduce the amount of offset projects developed. NextEra Energy suggests that ARB make a strong effort to avoid the buyer liability stipulation because it may defeat the whole purpose of this program.

NextEra Energy would suggest that ARB provide insurance against the release of sequestered carbon through a systematic discounting of offset crediting. If ARB has any reservation about the risk a project presents to the integrity of the program, those types of projects should receive a discounted accreditation in proportion to the risk they represent. The difference in real reductions and credited reductions would be placed into an insurance pool of offsets that could cover the any re-release sequestered and credited carbon. If a release occurs, credits from this insurance pool would be retired in an amount equal to the credited and certified carbon offsets that are released into the atmosphere. Discounting the credited offsets given to all projects types that present a risk of release would spread the cost of one failure or natural disaster across all offset providers without damaging the integrity of the program. The discount factor would be based on a risk assessment of each type of project. That way a certified offset would be offered on the market with a guaranteed and truly certified reduction value. Buyers and investors would have more confidence in the offset market and more projects would be developed (which is a good thing for the environment). Any willful misrepresentation or fraudulent acts should be dealt with as crimes and are not necessarily part of this discussion.

ARB then has to decide what to do with this pool of offsets if there are no credited sequester carbon released. ARB could retire the excess offsets. Another option would be releasing some of the offsets into the market. ARB would have to determine how many offsets the set aside should contain to adequately cover the risk of release After a period of time, (5-10 yrs?), the excess offsets in the set-aside could be sold into the market. The revenues from the sale of these offsets could be used for customer relief or the development of new project types. There are many options but the simplest one would be to hold the offsets and retire a portion of them on a scheduled basis.

Certified offsets need to be dependable and real. GHG compliance entities and offset project developers need a standard for what is and what is not a real offset. Once that is established that standard needs to be steadfast. Making certified offsets revocable undermines the stability of the offset program and introduces an added element of risk to the equation. This added risk result in a decrease in the development of offset projects. From an environmental standpoint, offset projects should be viewed as a good thing for the environment and should be encouraged. This “buyer beware” policy could prevent the development of some good projects that would have not only reduced GHG emissions but may have resulted in added environmental benefits as well.

If you have any questions concerning these comments please feel free to contact me directly.

Thank You,

Kyle D. Boudreaux
NextEra Enery, Inc
561-691-7358
kyle.boudreaux@fpl.com