URS

Memorandum

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To: Steven Cliff, Office of Climate Change, ARB

From: Victoria Evans, National Greenhouse Gas Management Services Practice Leader, URS Corporation, 1333 Broadway, Suite 800, Oakland, CA. Victoria_Evans@urscorp.com

Subject: **Comments to the California Air Resources Board on the Greenhouse Gas Cap-and-Trade Program**

This memorandum provides comments regarding the California Air Resources Board's (ARB) Greenhouse Gas (GHG) Cap and Trade program. *These comments are to be based upon the program elements discussed to date and upon the presentation on the program by ARB on May 17, 2010. Comments are due to the ARB by June 7, 2010. The ARB has informed us they will accept comments late.*

URS has analyzed latest elements of ARB's draft GHG Cap-and-Trade regulation and the key points are outlined below.

Allowance Allocation

- URS recognizes the importance of ARB's recommendation for free allocation of allowances as an important cost-containment element of the California's carbon cap and trade program. This proposed direction by ARB reflects sensitivity to current economic problems and reflects one of the important recommendations made by Governor Schwarzenegger in his letter of March 24, 2010 to ARB Chair Mary Nichols.
- The Governor's statement in his March 24, 2010 letter to ARB Chair Mary Nichols was that "a free allocation system, on the other hand, should reward companies that have already made significant investments in energy efficiency and carbon reductions, and should not penalize those that produce goods in California." Many of URS' clients are working towards reducing their greenhouse gas emissions in response to AB 32.

Alignment of CA Cap and Trade Reporting with EPA MRR

- URS supports ARB efforts to align ARB reporting requirements with other existing requirements for greenhouse gas reporting to EPA, so that divergent systems are not created. Without this harmonization of the reporting requirements for ARB and EPA, companies in California will need to maintain two sets of data collection and reporting capabilities, and could incur the duplicative costs.

Benchmarking

- Benchmarking is central to ARB's proposed process for GHG allowance allocation. That process is proposed primarily to be based on the energy intensity of industries and facilities that manufacture or generate only one standard output or product – thus, the energy intensity of a single product would be the benchmark. How would this apply to industries that produce more than one product?

- Data used for benchmarking may include proprietary information or information that could lead to disclosure of trade secrets (CBI). Would ARB consider CBI when undertaking benchmarking studies and restrict CBI from public disclosure?

Emissions Intensive Trade Exposed Entities

- Will ARB be releasing information soon on what industries are in their preliminary classification of sectors at risk of leakage?

Allocations within Distinct Markets

- ARB has described a system in which electricity generators monetize allocations in a double-sided auction whereas industries do not. This brings up further questions, the first of which is whether utilities will be able to buy allowances from industry to sell in the auction or if industry may buy allocations from utilities in the auction.
- Would an industrial entity that generates power onsite be eligible or required to participate in the double-sided auction as a retail provider? And further, if they would be so required, how would their level of participation be determined?

Indirect Causes of Leakage

- ARB has described a scheme for preventing carbon leakage due to the inability to pass on carbon allocation costs. However, for many industries, the cost of electricity and/or fuels is likely to increase while the industry remains unable to pass the costs along. This could also result in leakage pressure even if costs from direct emissions are addressed through free allocations.

Emissions Reduction Credits and Offsets

- Will reduction credits created at facilities that are not capped be eligible for use at facilities that are capped, or alternatively sold to other entities? To date it is unclear if and how credits will be awarded for reductions in GHG emissions, or whether any such credits will be freely tradable among facilities reporting under the Cap and Trade system.
- Under the rules being considered by ARB, would it be possible to gain criteria pollutant emissions reduction credits for GHG reducing actions under AB32?
- Does ARB have plans to expand the type of offsets that are allowed? Implementation of AB 32 is an opportunity to promote offset projects, such as wetlands sequestration projects, that produce adaptation benefits as well as GHG emission reductions. ARB can both establish and demonstrate the use of new offset standards. Offset projects will play a significant role in providing cost-effective emission reduction strategies to contain allowance costs for companies that want to keep jobs and expand in California.
- Will ARB grant shutdown credits for the GHG emission reductions that closing a facility would provide (for non-regulatory reasons)? For example, would ARB consider this for shutdowns that occurred after AB32 was adopted and where ERCs for criteria pollutants were already granted by the AQMD? Would these GHG shutdown credits be considered additional?