Comments to the California Air Resources Board
From the California Independent Petroleum Association
Regarding the Revised Climate Change Draft Scoping Plan
Submitted November 20, 2008

The California Independent Petroleum Association respectfully submits the following comments on the Revised Draft AB 32 Scoping Plan.

The mission of the California Independent Petroleum Association (CIPA) is to promote greater understanding and awareness of the unique nature of California's independent oil and natural gas producer and the market place in which he or she operates; highlight the economic contributions made by California independents to local, state and national economies; foster the efficient utilization of California's petroleum resources; promote a balanced approach to resource development and environmental protection and improve business conditions for members of our industry.

CIPA appreciates the opportunity to submit the following comments to the California Air Resources Board (CARB) for its consideration. The members of CIPA believe that domestic petroleum production already plays a meaningful role in helping the state meet its policy goals for reducing green house gas emissions in California. Moreover, CIPA and its members stand ready to do their part, to the extent practicable, to reach further reductions. But it is important to keep in mind that California oil and gas production already represent the most environmentally friendly processes in the industry both nationally and internationally.

The Case

In the revised Scoping Plan, CARB makes the case for an unprecedented level of regulation based upon the perceived environmental and public health costs of inaction, a flawed macroeconomic analysis that ignores the near term and incremental real costs of this far reaching scheme, phantom household and business savings, unsubstantiated claims of the measure's ability to drive investment and growth and questionable claims of public health improvement.

What this will translate to, if taken to its logical extension, for California based petroleum production, already the most regulated and environmentally friendly oil fields in the world, is a curtailment of domestic production. Domestic production accounts for approximately 40 percent of demand in California. Curtailed domestic production will lead to tankered imports from fields far less environmentally friendly- in terms of both carbon as well as criteria pollutants- to meet domestic demand for fuel. This will lead to large scale and widespread leakage.

It is important to remember that "sustainability" has two aspects: we must not overtax or abuse our natural resources; but nor can we destroy the economic vitality of our resource production activities. Failure to keep a balance in these two aspects is not sustainable.

The Nature of the Scoping Plan

If the Scoping Plan were a rulemaking we would marshal our forces to resist this unprecedented sweep of thinly supported, economically unsound command and control regulation. But the plan is not a rulemaking. The plan is a statutorily required "road map" for climate change policy and all of the sectors will submit their respective policy options to individual rulemakings.

We're counting on the map to change. We understand that when the individual measures contemplated by the Scoping Plan are subjected to the rigors of an official rulemaking under the Administrative Procedures Act, the true impacts on society, citizens and our economy will be known and we can move past this aggregated, last dollar weighted, macroeconomic analysis based upon unrealistic inputs.

We understand that CARB must approve the Scoping Plan and will reserve our criticisms for the individual rulemakings that we are currently working in and those that will follow.

A Note on Cap and Trade

We recognize that CARB is considering a cap and trade program in its AB 32 scoping plan. We are quite concerned, however, that an agency whose historical mission has been to impose command and control strategies will rely more heavily on traditional regulation rather than markets in their plan. We are further concerned that any market approach be designed correctly.

Many reasonable and respected economic experts including the Market Advisory Committee, as well as the drafters of the Kyoto Protocol, have endorsed market mechanisms. Our friends in Europe, who are way ahead of us in the climate change politics department, are using them to reduce GHG emissions at significantly lower costs. But the most compelling evidence by far comes from our colleagues at the AB 32 Implementation Group who tell us that a Congressional Research Office report concluded that market mechanisms generate GHG emission reductions at ***five times less cost***.

It's important that the state carefully compare the costs of both market and regulatory mechanisms for complying with AB 32. It is vital for decision-makers to understand the relative costs of market and regulatory approaches for complying with AB 32.

California's Cap and Trade program should not have geographic restrictions. To truly minimize costs, the Cap and Trade Market program must be global in reach and structure.

The program must include a broad based process to create offsets, and credits and offsets should be designed for the widest possible application so that the regulated community can have a reasonable chance to comply with the new regime. Credits and offsets are valuable tools to avoid leakage of emissions to other states and countries, and could prevent the loss of thousands of jobs.

California's market program should align with other existing or planned markets such as the European Union's ETS program. Establishing one world standard for fungible carbon credits is an important element in establishing an effective program. A broad based program for creating offsets begins the process of building a world system.

It is critical that the market program be harmonized with command and control programs to ensure that the programs work efficiently and effectively and do not subject facilities to overlapping, competing requirements.

Finally, a Market Mechanism must minimize the use of "auctions" to allocate GHG emission allowances among the facilities within a sector.

Beyond the Scoping Plan

We will continue to work with CARB staff toward a better understanding of the oil and gas sector emissions, and we will work on reduction strategies, but we think it is important to understand the number, scope and reach of the strategies already deployed in California oil and gas production that we detailed in our previously submitted comments on the first draft Scoping Plan.

Much has already been done by our industry. We have established a solid working relationship with our Sector staff and will continue to work proactively with them in this process. We cannot stress enough how important it is that CARB avoid actions that might lead to a curtailment of domestic production which is a significant hedge against foreign imports that have far higher GHG impacts.