



AB 32 Implementation Group



Working Toward Greenhouse Gas Emission Reductions
And Enhancing California's Competitiveness

July 9, 2010

Mr. Kevin Kennedy
Assistant Executive Officer
Office of Climate Change
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Submitted electronically

Subject: Comments on June 23, 2010 Cap-and-Trade/Offset Protocol (*Transitioning to Compliance Protocols*) Public Workshop

Dear Mr. Kennedy:

The AB 32 Implementation Group (AB 32 IG) is a coalition of business and taxpayer groups working for effective implementation of AB 32. Our goal has been, and continues to be, to serve as a constructive voice in the implementation of AB 32 and ensure that the greenhouse gas emission reductions required by the statute are achieved while maintaining the competitiveness of California businesses and protecting the interests of consumers and workers. We appreciate the opportunity to comment on the June 23, 2010 California Air Resources Board (CARB) workshop on Offset Protocols (*Transitioning to Compliance Protocols*) for the Cap-and-Trade Program.

We note the workshop covered a wide-range of topics and featured over 60 slides and an extensive verbal narration. Given the breadth of the presentation and the short timeline for comments, this letter will be limited to broader policy issues and overall program design. The AB 32 IG may provide additional comments as our understanding of the issues grow and as details emerge.

General Comments:

As we have noted in our many comment letters over the past years, the AB 32 IG has expressed support for a broad market approach to achieve GHG emission reductions at the lowest cost. Experience has shown that cap-and-trade programs can achieve emission reductions at dramatically lower

costs than conventional regulation. However, cost-containment mechanisms in the cap-and-trade program are essential for ensuring the long-run cost-effectiveness of GHG reduction efforts. As such, they are necessary to meet AB 32's mandate that CARB's regulations be cost-effective.

Further, the IG believes that a robust offset program is a key cost-containment mechanism to ensure an effective cap-and-trade program that achieves emission reductions at the lowest cost. For the following three reasons we are very concerned that the offsets program outlined at the June 23, 2010 workshop will not lead to the availability of the needed offsets to allow the California program to work effectively:

1. CARB must specifically approve all protocols via regulation, which will require significant resources and a timeline that will likely preclude most offsets from being available for use in the compliance timeframe – up to now it has taken 2-3 years for protocols to be approved; it will take another 2-3 years for offset projects to come to fruition – a timeline that does not provide certainty for offset providers and offset users;
2. The draft criteria for protocols, now under consideration, is so restrictive that creation and use of offsets will be severely limited; and,
3. The draft criteria, now under consideration, for linkage to offsets under Climate Action Registry (CAR), the EU ETS and with UN CDM offsets will (in the short term) essentially exclude the possibility of California entities to have access to globally available offsets.

The AB 32 IG firmly believes the key to the availability of quality offsets is for CARB to design the program to accept Climate Action Registry (CAR) approved offsets and to more effectively link with offsets in the EU ETS and with UN CDM offsets. We urge CARB to adopt criteria that allows for a more direct and flexible linkage with these programs – one that will allow California entities to have access to already approved California offsets and to other globally available offsets that can be available for use in the first compliance period timeframe.

AB 32 requires that CARB provide incentive for early action. In many cases, early action was taken under the CAR protocols. It is imperative that CARB recognize these early actions and categorically accept CAR-approved early action offsets.

CARB must ensure that limited linkage and limited offsets do not preclude a cost-effective program.

Enforcement and Liability:

Per the presentation, current CARB thinking is to impose enforcement and liability on offset providers and buyers. The AB 32 IG strongly opposes liability on buyers/users of approved offsets. Imposition of liability upon the buyer creates uncertainty and could have a chilling effect on the market. Added liability further decreases investment in the state. It is important that purchasers go into the market with off load risk; failure to take this into consideration negates the purpose of 'approved offsets.' CARB must devise a workable enforcement and liability scheme that provides incentives for offset providers to seek CARB approval and for California facilities to become offset buyers. To do otherwise will lead to a limited offset program that will cause the cap-and-trade program to not be cost-effective.

Co-benefits:

We continue to believe the California cap-and-trade program must focus on GHG emission reductions and that the offset program must be kept separate from the co-benefit/co-pollutant issue. The co-pollutant and co-benefit issues can and will be addressed by the existing criteria and toxic pollutant programs, by the air district permitting programs and by the CEQA process. AB 32 and the cap-and-trade program must focus on GHG emissions.

Thank you for considering our comments. We hope that you will accept further comments as they are developed in the next few weeks. If you have any questions, please contact me at (916) 858-8686.

Sincerely,



Shelly Sullivan

Executive Director

AB 32 Implementation Group

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