AB 32 Implementation Group

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

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Ms. Janice Adair
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Special Assistant, Washington Department of Ecology

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Co-Chair Western Climate Initiative
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Dear Ms. Adair and Mr. Owens:

Thank you for the opportunity to comment on the Western Climate Initiative Draft design of the Regional Cap and Trade Program.

The AB 32 Implementation Group represents a broadly based coalition of 160 organizations representing companies employing millions of California workers. Our mission is to work towards a balanced, cost-effective approach for implementing AB 32. Many of our members are continually striving to reduce their operating expenses so as to provide competitively priced products to their customers. One way they've been able to achieve this is through strategic energy management. It is within this context that we have specific comments to the WCI Draft Cap-and-Trade Program.

Carbon Taxes and Regulation, Sections 5.2.1 and 5.2.2
For the cap-and-trade program to be an effective tool to lower the cost of reducing greenhouse gas emissions, it must be the primary means of achieving emission reductions. Unfortunately, the WCI envisions partners adding on carbon fees, taxes, and regulations in addition to the cap. This "piling on" will impose huge and unnecessary costs which will ultimately be borne by consumers.

Allocating Permits: Section 8.7
Allowances should be predominantly freely allocated, not auctioned. Similar to the EPA Acid Rain program, the auction should be used only to set the initial market price and to provide a safe haven mechanism to assure that all participants can acquire their required allowances. An allowance system heavily based on auctions will limit the ability of a cap and trade system to provide the greatest reduction in GHG's in the most economical manner. We recommend no more than 5% of available allowances be available through an auction.

Offsets Section 9.2
We strongly recommend reconsidering the10% limit on the use of offsets. In order to achieve the greatest benefit for the least cost and to relieve an additional economic

burden on local economies, the use of offsets should be uncapped to meet compliance requirements. Based on research and experience, offsets provide a means of reliably reducing greenhouse gas emissions. They may be a valuable tool to avoid leakage of emissions to other states and countries, and could prevent the loss of thousands of jobs. Offsets also reduce AB 32 compliance costs and would save California's economy billions of dollars. In fact, a recent study by CRA International demonstrated that if California limited the availability of offsets, the state could lose more than 300,000 jobs and decrease the state's GSP by billions of dollars.

Project Types for Offsets: Section 9.3
In order to provide the greatest benefit with the least cost, the following guidelines need to be adopted as part of WCI implementation regarding carbon offsets:

1.) Energy efficiency projects must be included as an acceptable method of creating carbon offsets. In order for our members to complete an energy efficiency project, it must first meet their internal hurdle rate (minimum payback period or internal rate of return). In most cases, this hurdle rate is high. This assures that they are making the most prudent use of limited capital. Including the value of a carbon offset in the financial model will allow for more projects to be completed as the monetary benefits of the offset will push the project above the hurdle rate.

2.) In order for our members to increase their energy efficiency efforts it is imperative that they receive all the environmental attributes of a project, regardless of whether they are using funds from state or utility programs. As these programs are funded from customers/tax payers, the money is simply flowing back to the constituents who have initially provided them. As mentioned previously, in order for our members to achieve significant energy efficiency within their operations, it is imperative that they receive all the benefits available. This includes both the funding from public purpose programs and the value of the carbon offset.

3.) There should be no limit placed on carbon offsets that initiate from approved projects located within WCI member states and provinces. We believe that the best opportunity for success is to create real and permanent reductions in GHG emissions by the least cost method. Carbon offsets will play a valuable role by providing needed liquidity to the market which in turn will drive down the cost of GHG reductions.

4.) The energy efficiency work that has already been completed by our members needs to be acknowledged. The best way for WCI to recognize the voluntary efforts our members have taken is to allow these projects to be eligible for carbon offsets. We recommend that all projects (subject to verification) completed after December 31, 2006 be eligible.

5.) Project verification must be streamlined and cost efficient. We advocate that a standards based approach be used in the verification process of carbon offsets. For example, a retail company with 500 locations cannot afford the cost of verifying a

recognized energy efficiency project if it needs to be implemented on a project-by-project basis.

6.) A robust carbon offset program will lead to greater reductions. If there is a streamlined approach to developing carbon offsets, then aggregators and developers will enter the market. This will lead to a greater infusion of cash that retail customers can use to further drive better economics of projects. As more avenues of funding are available, especially if businesses won't have to use their own capital, more projects will be completed.

7.) We also believe that renewable energy projects, like solar, wind and fuel cells should be a viable method of developing carbon offsets. Several of our members have begun significant renewable energy projects that are reducing their need for grid supplied energy. As with energy efficiency, they need to be able to include the value of the carbon offset in their project models to determine viability when calculating the investment hurdle rate. We recognize that in order to prevent double counting, the customer cannot value both the renewable energy credit (REC) and the carbon offset and guidelines must be taken to prevent this from occurring. However, the end-user must ultimately be able to receive either of these credits on projects they implement at their facilities in order for them to be financially viable. WCI must include customer-based renewable energy projects as another method of creating carbon offsets.

Protocols, Section 9.4
It is imperative that project protocols be developed that allow for the creation of projects that produce real, permanent, and verifiable GHG reductions without excessive development and certification costs. Smaller projects should not become unviable because of the costs for compliance. A standards based approach should be used where the customer can provide the majority of the documentation upon project completion based on predetermined guidelines. A third party can still be used to verify and audit this data. This will be crucial to maximize the opportunity for small scale renewable and energy efficiency projects to be developed and contribute to the WCI GHG reduction goals.

Renewable Energy Certificates, Section 9.8
WCI partners should be able to use Renewable Energy Certificates (RECs) to meet compliance guidelines. The limits on the use of RECs should be minimal within the designated geographic area of the region comprised of WCI partners.

Voluntary Offset Market, Section 9.9
The development of a voluntary offset market and the use of those offsets to meet WCI GHG reduction goals should be encouraged and will ensure WCI partners get the greatest benefit for the least cost.

Transportation Fuels:

We strongly oppose including transportation fuels under the cap and trade program as proposed. At a minimum, before including transportation fuels under the cap and trade program, WCI should conduct a thorough economic analysis on how this would impact transportation fuel supplies and infrastructure. Maintaining reliable transportation fuel supplies should be an essential element of this plan because of the significant impact dislocations of supplies and prices would have on the economies of the WCI partners and every citizen in their states.

We applaud WCI for taking the first steps to develop a program that addresses GHG reduction goals. AB 32 Implementation Group members want to ensure the Program is developed in a way that helps members manage operating costs by increasing energy efficiency efforts and deploying more renewable energy projects. To do this however, it is imperative that a robust and fair carbon offset market be created that encourages voluntary participation. Thank you for allowing us to submit these comments. Please don't hesitate to call us if you have any questions.

Sincerely,

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cc: Mary Nichols, CARB
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