CARBON OFFSET PROVIDERS COALITION
www.carbonoffsetproviders.org

February 15, 2008

Via Electronic Submission and U.S. Mail

Program Evaluation Unit (ccplan@arb.ca.gov)
California Air Resources Board
Office of Climate Change
1001 I Street
P.O. Box 2815
Sacramento, CA 95812
Attn: Kevin M. Kennedy (kmkenned@arb.ca.gov)

Re: <u>AB 32 Scoping Plan Program Design</u>

Dear Mr. Kennedy and the Other Members of the AB 32 Scoping Plan Team:

I write on behalf of the Carbon Offset Providers Coalition (the "Coalition")[1] to provide comments to the California Air Resources Board ("ARB") in connection with its development of the AB 32 Scoping Plan. In particular, we wish to provide input on the Program Design as it was described by ARB staff at the Scoping Plan Program Design Technical Stakeholder Working Group meeting on February 6, 2008.

The Coalition thanks and commends ARB for all of the work that it's performed to date on the AB 32 Scoping Plan, and in particular for its strong commitment to public participation in this process. The Coalition appreciated the opportunity to participate in the February 6 meeting, and for this opportunity to submit additional comments.

Per the request of ARB staff at the February 6 meeting, these comments are addressed only to the broad Program Design principles that ARB described at the meeting and the scenarios being considered for ARB's initial economic modeling runs. ARB set forth five proposed scenarios for economic modeling, which it intends to complete in advance of the April 4 ARB workshop. Three of the five models are cap-and-trade programs, another consists of additional

[1] The current members of the Coalition are Blue Source, LLC; Camco International Group, Inc.; The CarbonNeutral Company; CommonWealth Resource Management Corp.; Environmental Credit Corp.; GE AES Greenhouse Gas Services; The Kolibri Group; and MGM International.

direct regulation, and the fifth consists of a carbon fee applied to fuels at the distribution level. ARB states that

> These proposed scenarios do not include the use of offsets as a possible policy tool. Evaluating the potential role of offsets is a high priority for the modeling work, but cannot be incorporated until after completion of the modeling of these initial scenarios. (ARB February 6, 2008 Agenda Package at 4.)

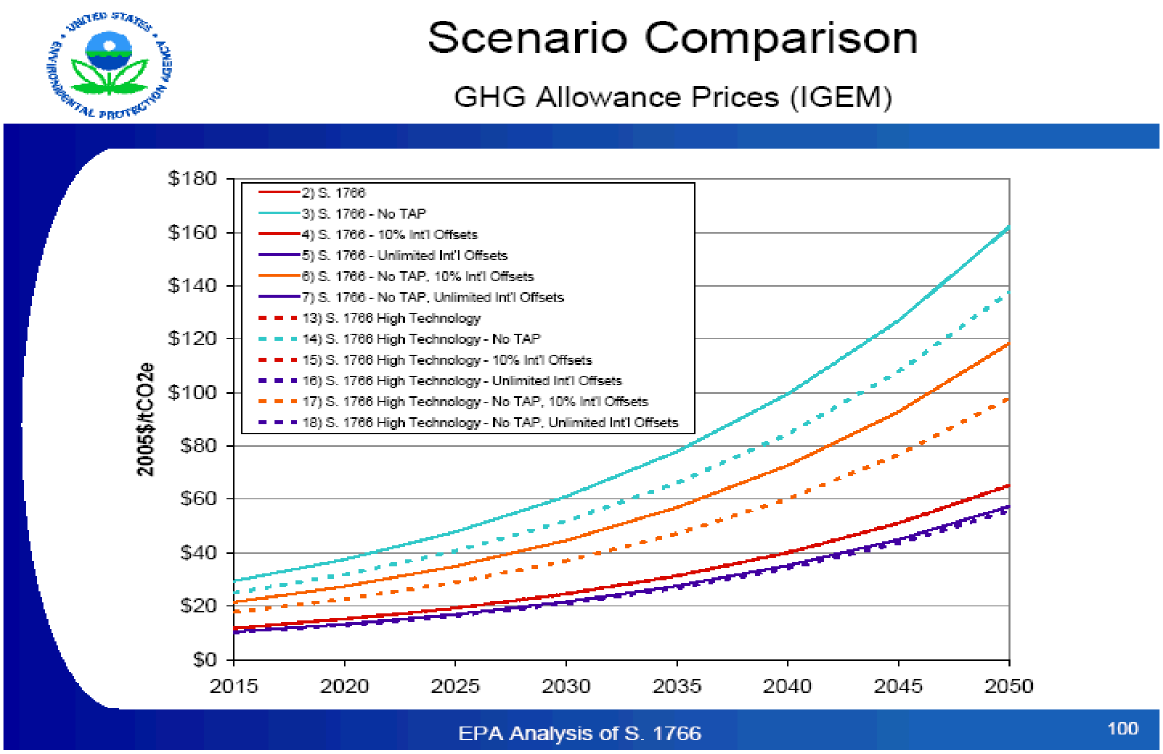
We limit these comments to this statement. We will provide more substantive comments on the models and the Scoping Plan at a later date. In the meantime, we do request that ARB consider the comments that the Coalition recently submitted to the Western Climate Initiative's Offsets Subcommittee. A copy of these comments are attached and they provide a good overview of beneficial role that offsets can perform in a cap-and-trade program to mitigate climate change.

The Coalition strongly encourages ARB to reconsider its decision to delay consideration of offsets until after these initial models are run. When designed appropriately, offsets provide significant cost containment benefits to any cap-and-trade program. They expand the range of GHG reduction opportunities for achieving reductions while reducing the cost burden on regulated sectors. Many offset project types also generate significant environmental and social co-benefits. We are concerned that considering cap-and-trade models devoid of offsets will result in their not being given a fair hearing. In short, the cost to the California economy of a cap-and-trade program will appear far greater in comparison to the other scenarios being modeled than it would be were offsets included.

A recent economic study prepared by the U.S. Environmental Protection Agency ("EPA") demonstrated the effectiveness of offsets in containing costs. In it, EPA analyzed the Low Carbon Economy Act of 2007 (S. 1766, a.k.a. the Bingaman-Specter cap-and-trade bill), and concluded that allowing the use of unlimited international credits and offset projects lowers the cost of achieving emissions goals by 65%.[2] EPA concluded that limiting the types of eligible offset projects undermines emissions reductions and makes the cap-and-trade program more expensive.[3] The graph below, from page 100 of the EPA analysis of S. 1766, illustrates the cost-containment benefits of offsets.

[2] *See* US EPA, EPA Analysis of The Low Carbon Economy Act of 2007 (Jan. 15, 2008) at pp. 6, 95. A copy of this report is available here: http://www.epa.gov/climatechange/economics/pdfs/S1766_EPA_Analysis.pdf.

[3] *See id.* at pp. 11, 40, and 96. EPA's model also considered more limited roles for offsets and found that they too lowered the cost of the program, though not as much.



ARB has indicated that it plans to issue the Draft Scoping Plan on June 26, 2008. This means that there will be only two-and-half months between the issuance of the models and the Draft Scoping Plan in which ARB will announce its proposed decisions on many major issues, including the role of offsets. We are concerned that if ARB's models do not even consider offsets, that there will be insufficient time in which to incorporate them into the analyses after the April 4 workshop.

If ARB maintains its current plan to exclude offsets from its initial modeling scenarios, then the Coalition respectfully submits the following two suggestions:

First, ARB should conduct a workshop solely dedicated to the role of offsets in a climate change regulatory regime as soon after the April 4 workshop as possible. This will help to ensure that due consideration is given to the potential role of offsets, both as a cost containment measure and for the significant environmental, social, and economic co-benefits that many offset project types generate.

Second, ARB should construct its economic models in such a way that offsets can be expeditiously added to the models after April 4.

Once again, we thank ARB for this opportunity to submit these comments, and we hope that ARB finds them helpful. We would be happy to provide additional information to ARB. To that end, please feel free to contact the Coalition's California representative at Beveridge & Diamond, PC: Nico van Aelstyn, at nvanaelstyn@bdlaw.com, (415) 262-4008.

Sincerely,

Roger Williams III

Roger Williams, Chairman
CARBON OFFSET PROVIDERS COALITION

Attachment