

Camco comments on Cost Containment under AB32 Cap-and-Trade

Camco very much appreciates this opportunity to comment on cost containment measures under a potential AB32 cap-and-trade system. We fully support the inclusion of cost containment measures that afford flexibility to covered entities without sacrificing environmental integrity. The most effective cost containment tool would be the inclusion of an emissions offset program focused on AB32's requirement that offsets be real, additional, quantifiable, permanent, verifiable, and enforceable.

About Camco – Camco is a publicly listed carbon project development company, with sustainable energy consultancy and technology investment businesses. We operate in nine countries including the United States, the United Kingdom, China, Russia, and in several African countries, with our North American operations headquartered in Denver, Colorado. We manage one of the world's largest carbon portfolios and were honored to be voted "Best Project Developer" by Point Carbon Awards in 2007 and 2008.

▪ **What type of cost containment mechanisms should California consider for a potential cap-and-trade program?**

Compliance Period Length. A multi-year compliance period would allow flexibility to covered entities to account for factors that may be difficult to predict or control, such as market and weather conditions that would affect a covered entity being short or long on its annual emissions budget. The Kyoto Protocol five-year commitment period aims to address these sorts of annual variations, and is also reflected in Phase II of the EU Emissions Trading System (ETS) whose duration is likewise 2008-2012.

ARB may wish to also consider including an initial test phase, perhaps from 2010 – 2012, to inform a subsequent multi-year compliance period from 2012-2020. Experience with both the UK and EU ETS show that it is difficult to predict the volume of allowances that covered entities will need prior to the commencement of actual trading. A test phase would help develop a better understanding of the California system that may alleviate the need for an independent oversight body to make adjustments, and would promote more accurate forecasting of trading volumes and prices. Alternatively, California could start with shorter multi-year periods to enable adjustments to be made between compliance periods.

Banking and Borrowing. Camco supports banking between compliance periods. This will encourage entities to undertake emission reductions early, and potentially in excess of what may be required. It can promote market liquidity and price stability, and for entities that choose not to engage in emissions trading, avoids penalizing aggressive emission reduction behavior. Banking incentivizes behavior that AB32 seeks to promote.

Camco would not support borrowing unless a strong "interest rate" is applied, with repayment required in the subsequent compliance period with no possibility of further extension. Any borrowing provision must guard against indefinitely postponing a covered entity's reduction obligation.

Price Triggers. Camco cautions against employing price triggers. Setting a price at which additional allowances would be made available for sale jeopardizes the environmental integrity of the system. It would allow emissions to exceed the capped level, shifting the emission reduction burden to other sectors outside of the emissions trading system to deliver the reductions needed to meet California's 2020 and 2050 target. A price trigger would



reduce the economic incentive to invest in low or zero emissions R&D, technology, processes, innovations, offset project activities, or other climate-friendly actions. Price triggers present a risk to both short- and long-term ability to meet California's GHG target.

To guard against excessively high allowance prices, entities should be able to take advantage of other cost control tools that offer an equivalent environmental benefit. For example, entities should have access to investments in real, additional, compliance-grade offsets earned within the same compliance period. Alternatively, entities could be able to borrow from the next compliance period so long as a deterrent "interest rate" was applied and the reductions were repaid without possibility of further borrowing. Entities could also be assessed a fine, to be applied towards investment in an equivalent quantity of offsets to replace the amount in deficit. Camco would be able to support a price trigger only if it were set at such a high price that it would not be met except under the most extraordinary of circumstances.

Offset triggers. Offset triggers would create uncertainty and risk, thereby disincentivizing investments in offset projects. Project development requires a substantial lead time and the uncertainty of the value of the resulting offset would dampen the incentive to pursue emission reductions.

▪ **Is there a need to establish an independent market oversight body?**

A California emissions trading system does not necessarily need to establish a market oversight body to contain compliance costs, in particular if an initial test phase or shorter initial compliance period could be established to determine allowance supply, demand, and prices.

An oversight body empowered to make adjustments to the allowance budget or to undertake other oversight actions that would affect the supply of compliance instruments would risk injecting uncertainty into the system. Collection and analysis of market information, and reporting on the functioning of the market would be very valuable, however already exist high caliber organizations that are capable of this. These include trade publications, NGOs, community groups, research institutes, universities, consultancies, and others that can offer timely, independent, and credible market information and analysis.

▪ **Which systems should be considered for linkage with a potential CA cap-and-trade system?**

Camco strongly supports linking to other systems in order to benefit from access to a wider range of low-cost emission reduction opportunities, and a greater potential market for climate-friendly technologies. Linking may also help alleviate competitiveness concerns by leveling the playing field across the linked areas.

A California cap-and-trade system should be able to link to other systems of comparable or greater stringency. An assessment of stringency should consider the potential impact of features such as price triggers that may reduce a system's effectiveness. In general however, California should design its system to enable linking with other US emissions trading systems to promote the formation of a national-level system. Linkage with the EU ETS should also be actively pursued given its scope of coverage and stringency.

Thank you again for the opportunity to offer comments.

May 9, 2008