

January 27, 2010

Chairman Nichols and CARB Board Members:

The undersigned state legislators, businesses, unions, health experts, and organizations applaud the tremendous effort that the California Air Resources Board has put into designing and implementing AB 32. As the challenge to create a national global warming program continues, California's landmark and comprehensive approach grows in prominence and importance. We encourage you to ensure that our state program fulfill its promise of environmental integrity, local job creation, and public health benefits. **In particular, we encourage CARB to tighten its limit on offsets.** Designing our global warming to maximize co-benefits to the state is a critical part of the solution -- ethically, economically, and politically.

During the November 21, 2008 CARB Board meeting at which the Scoping Plan was presented and discussed, CARB Board members had a lengthy discussion about the proposed 49% offset limit. Five board members raised concerns with the proposed quantitative and geographic limits (see highlighted sections of the attached transcript for details).

The state legislature shares many of these concerns. In September 2009, the legislature passed a bill to limit offsets to 10% of emission reductions and to prioritize offsets that provide environmental and health benefits to California. The governor vetoed the bill, stating that he wanted to give the Economic and Allocation Advisory Committee time to contribute input on the design of the cap and trade program. However, EAAC did not make any recommendations on an offset limit.

The offset limit in CARB's Preliminary Draft Cap and Trade Regulation (PDR) remains at 49%, and would allow offsets from anywhere in the world to be used as substitutes for direct emission reductions by entities capped by our state program. This would permit a large share of emission reductions from the cap and trade program to occur outside of capped sectors, in turn undermining the effectiveness of the program by diminishing opportunities for job creation and co-pollutant reductions in the state's most heavily-polluted areas, and transferring what should be public wealth in the form of allowance value to private, and potentially out-of-state, offset developers.

The amount of offsets proposed in the PDR nearly exceeds the emission reductions expected from cap and trade. The Union of Concerned Scientists estimates that the cap and trade program is expected to achieve roughly 145 MMT of reductions from 2012-2020 (calculating reductions as cumulative annual reductions below emission levels in 2012.) CARB proposes allowing 122 MMT of offsets into the system, leaving a mere 23MMT of reductions in capped sectors due to the cap and trade program over the ten year life of the program. In other words, only 16% of the cap and trade reductions will be required to occur in the state's most heavily-polluting sectors.

We encourage you to strengthen the offset limit and prioritize offsets that provide environmental and health benefits to California, and in particular, those communities that are already suffering disproportionately from unhealthy air pollution.

Sincerely,

California Legislators

Assembly Member Tom Ammiano
Assembly Member Wilmer Amina Carter
Assembly Member Jim Beall
Assembly Member Bob Blumenfield
Assembly Member Hector De La Torre
Assembly Member Jerry Hill
Assembly Member Jared Huffman
Assembly Member Dave Jones
Assembly Member Ted Lieu
Senator Mark Leno
Senator Carol Liu
Senator Alan Lowenthal
Assembly Member Fiona Ma
Assembly Member Pedro Nava
Assembly Member V. Manuel Perez
Assembly Member Ira Ruskin
Assembly Member Mary Salas
Assembly Member Sandre Swanson
Assembly Member Tom Torlakson
Assembly Member Mariko Yamada

Public Health

Richard J Jackson MD MPH
former Director, National Center on Environmental Health
former California State Public Health Officer

Professor Beate Ritz
UCLA School of Public Health (*listed for affiliation only*)

American Lung Association of California
Bonnie Holmes-Gen

Breathe California
Andy Katz

Community Action to Fight Asthma
Anne Kelsey-Lamb

Fresno-Madera Medical Society
Dr. Bill Ebbeling

Public Health Institute
Mary A. Pittman, DrPH

Public Health Law and Policy
Robin Salsburg

Regional Asthma Management and Prevention
Anne Kelsey-Lamb
SF-Bay Area Chapter, Physicians for Social Responsibility
Robert M. Gould, MD

Business

California Wind Energy Association
Nancy Rader

Center for Energy Efficiency and Renewable Technologies
Danielle Osborn Mills

Large Scale Solar Association
Shannon Eddy

Luminalt
Jeanine Cotter

New Voice of Business
Buddy Burke

Sharp Electronics Corporation
Julia Curtis

Solar Millennium
Rachel McMahon

Solaria
David Hochschild

SolFocus
Kelly Desy

Suntech America, Inc.
Polly Shaw

Sustainable Energy Partners LLC
John Humphrey

Vote Solar
Adam Browning

Labor

California Apollo Alliance
Lisa Hoyos

Engineers and Scientists of California, Local 20 IFPTE
Josh Sperry

State Building and Construction Trades Council, AFL-CIO
Cesar Diaz

Faith

California Interfaith Power and Light
Rev. Canon Sally G. Bingham

Catholic Charities, Diocese of Stockton
Betsy Reifsnider

Fresno Metro Ministry
Sarah Sharpe

Lutheran Office of Public Policy – California
Mark Carlson

Orange County Interfaith Coalition for the Environment
Margaret Henke

Environmental/Social Justice

African American Environmentalist Association
Norris McDonald

Bayview Hunters Point Community Advocates
Karen Pierce

California League of Conservation Voters
Warner Chabot

California Rural Legal Assistance Foundation
Martha Guzman Aceves

Center for Biological Diversity
Brian Nowicki

Center for Environment, Commerce & Energy
Norris McDonald

Central Valley Air Quality Coalition, Legislative Committee
Rafael Aguilera

Clean Air Now
James Provenzano

Coalition for Clean Air
Nidia Bautista

Ella Baker Center for Human Rights
Evelyn Rangel-Medina

EndOil/Communities for Clean Ports
Ryan Wiggins

Environment California
Bernadette De Chiaro

Environmental Working Group
Bill Allayaud

Friends of the Earth
Danielle Fugere

International Rivers
Patrick McCully

National Parks Conservation Association
Tim Gibbs

Natural Resources Defense Council
Peter Miller

Our Children's Earth Foundation
Tiffany Schauer

Planning and Conservation League
Tina Andolina

Sierra Club California
Bill Magavern

Union of Concerned Scientists
Erin Rogers

TRANSCRIPT

BOARD MEETING
STATE OF CALIFORNIA
AIR RESOURCES BOARD
JOE SERNA, JR. BUILDING
CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY
BYRON SHER AUDITORIUM, SECOND FLOOR
1001 I STREET
SACRAMENTO, CALIFORNIA
FRIDAY, NOVEMBER 21, 2008
8:30 A.M.

<http://www.arb.ca.gov/board/mt/2008/mt112108.pdf>

BOARD MEMBER SPERLING: Item two, the offset issue. And I confess I haven't looked at it really carefully. But the way it's being presented that others are presenting it, if their view of it is accurate, I think that has raised some concern. And the question I guess is the offsets are important. But the question is, how large are they? Because I guess the real question in my mind is, are these offset, the 49 percent number, does that apply to just the cap and trade reduction requirement, or is it more broadly, as USC was implying?

EXECUTIVE OFFICER GOLDSTENE: Kevin Kennedy from the Office of Climate Change will answer that.

PROGRAM EVALUATION BRANCH CHIEF KENNEDY: The way that the 49 percent -- which is viewed as an upper limit we might actually set a lower limit -- would be applied against the total reductions that are achieved starting from whatever the level in the cap and trade program from the level set for the 2012 cap and then as the reductions go on. So as you get in the later years, that number does start looking like a very large limit on offsets. It's something that we will be working through. The fundamental policy direction that we see in the plan is that we want to have an offset limit that is designed to make sure that there are significant reductions from within the cap and trade program. So as we work through the details of the rules and how we set the limits, we will take a close look at the information USC and others will put forward. If it looks like that is too big of a limit in the out years, we'll re-visit the 49 percent. We're not set at we're going to do 49 percent.

BOARD MEMBER SPERLING: Perhaps a technical question is when you say offset, is that within the WCI area or the California area?

PROGRAM EVALUATION BRANCH CHIEF KENNEDY: In terms of where the offsets could be coming from?

BOARD MEMBER SPERLING: Yeah. When does it count as an offset?

PROGRAM EVALUATION BRANCH CHIEF KENNEDY: In terms of where offset projects could be located, the language in the plan says we would be looking to something that would not have geographic limits. The sort of limits that we are looking for. One is the quantity limit we're talking about. But also making sure there are very stringent rules so we feel very confident that the reductions that we are looking at are real,

additional, verifiable, permanent, et cetera. So we're looking at more the question of ensuring the quality of the offset than trying to set a geographic area where the project will be located.

BOARD MEMBER SPERLING: So if you buy a credit from one of the WCI states or Canadian provinces from that electric utility, is that an offset or is that credit trade?

PROGRAM EVALUATION BRANCH CHIEF KENNEDY: If what you are purchasing is an allowance that was issued by one of the other partners that we had established the trading relationship with, that would be an allowance. And that would not count as an offset.

ACTING CHAIRPERSON ROBERTS: I think we're leaving out several questions that are going to have to be answered as part of the December, the 49 percent, the geographic area, all these things I think --

BOARD MEMBER BALMES: If you want a sense of some of the Board, I think 49 percent is way too high. I would have trouble with that. And I think then no geographic restrictions means planting trees in Brazil would be an offset if it could be verifiable. And I'm not saying that's a bad thing to do. I'll all for planting trees in Brazil. But I'm not sure that's the way I want to see the offset program for California.

ACTING CHAIRPERSON ROBERTS: I think part of what we're going to be wrestling with -- I'll just put this on the table. Convince us that there's a health benefit that's associated in the sort of region in which these things take place. It seems like that health benefit if it's going to happen needs to happen in California to the extent that we're doing these things. In addition to the greenhouse gas itself is a whole series of other things that we're rolling out that will happen. To the extent we're going outside the geographic area to some other place on the planet, while that net effect of the greenhouse gas is going to be the same, we are losing some of the benefit there that we'd like to see here. So I think that's going to cause us all to have some sleepless nights between now and December.

BOARD MEMBER D'ADAMO: And if I could just add, I think of that cap on offsets and the geographic limitation in a similar fashion that I look at the goal of 100 percent auction. I think we want to maybe consider establishing goals. Start slow. Make sure we are doing this program right. Maybe have geographic restrictions. I think it goes to whether or not we can -- we have a comfort level of verifiable offsets. It's a lot easier to do it in your own backyard. To verify that once the program gets going if it makes sense to go beyond, let's re-visit that issue.

ACTING CHAIRPERSON ROBERTS: Well, I think I can safely speak for everyone we have to have an iron clad guarantee that the offsets are going to be there.

BOARD MEMBER HILL: And verifiable. And I would agree with DeeDee's comments and Dr. Balmes that 49 percent, it seems excessive. It doesn't get us I don't think where we need to be, especially here. So maybe if you bring back a lower number at the next meeting.

EXECUTIVE OFFICER GOLDSTENE: It is an upper limit as Kevin just pointed

out. And it was a product of extensive negotiations with the Western Climate Initiative trying to come to a number. There were several members in that process that wanted the ability to do much a greater number. So we felt at the staff level that we had significant success getting it down to 49 percent as an upper limit. Each member would ultimately decide what they are comfortable with.

BOARD MEMBER D'ADAMO: Question. Did negotiations include reference to the regional boundary on offsets?

EXECUTIVE OFFICER GOLDSTENE: Yes. And there's no geographic limit. As long as the offsets are verified very high quality offsets -- because we're dealing with the pollutant that's a worldwide pollutant theoretically it's solid and verifiable. We can go into more detail if you need.

ACTING CHAIRPERSON ROBERTS: Well, I want to get through this. Board Member Sperling has one other item.

BOARD MEMBER BERG: I just want to -- if we discuss geographic boundaries I would like to know what the economic impact. Because my understanding is that there would be some strong economic impact if we bring the boundaries in because it limits the offsets. So I just think that we need to have both sides of the information.

EXECUTIVE OFFICER GOLDSTENE: Just to clarify the point. Ms. Berg, offsets can have the effect of lowering the cost of compliance, particularly at the beginning of the program.

ACTING CHAIRPERSON ROBERTS: I think that's what she's saying.

BOARD MEMBER BERG: That is my point. And --

ACTING CHAIRPERSON ROBERTS: If it's worldwide, you're going to get lower costs associated, which is the whole idea.

BOARD MEMBER BERG: Which goes to the cost effectiveness piece of the legislation.