



Western States Petroleum Association
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Executive Vice-President and Chief Operating Officer

August 21, 2009

Mr. Tim Lesiuk, Offsets Subcommittee Chair, Western Climate Initiative
Executive Director, Climate Change Policy
Climate Action Secretariat
British Columbia

Subject: WSPA Comments on the WCI Offsets Committee White Paper on Offset System Essential Elements – Offset Definition and Eligibility Criteria

Dear Mr. Lesiuk,

The Western States Petroleum Association (WSPA) is pleased to submit the following comments regarding your July 24, 2009 solicitation for stakeholder input on the Western Climate Initiative (WCI) Offsets Committee White Paper on Offset System Essential Elements – Offset Definition and Eligibility Criteria.

WSPA is a non-profit trade association representing twenty-eight companies that explore for, produce, refine, transport and market petroleum, petroleum products, natural gas and other energy products in six western states – California, Arizona, Nevada, Oregon, Washington and Hawaii.

WSPA member companies own and operate various types of facilities (e.g., oil and gas production properties, refineries, marketing terminals, retail gasoline outlets, etc.) that will all be impacted by the implementation of the WCI. In addition, WSPA member companies produce and market transportation fuels and other fuels that will also be impacted by the implementation of the WCI.

WSPA is committed to working constructively with WCI toward achieving its Greenhouse Gas (GHG) reductions goals as efficiently and as cost-effectively as possible. We believe there is widespread recognition that whatever GHG reduction decisions are made, they must be formulated in a way that promotes a strong partnership among all elements.

Because of this, we believe it is critical that the objectives of the WCI mesh with other regional, federal and international objectives to ensure consistency, and to avoid costly and confusing unintended consequences.

Included in the list of potential unintended consequences is the possibility that environmental impacts could be worsened, and that there could be negative impacts on both the economy and future energy supplies. WSPA believes that at the same time as policy makers address climate change it is critical that they also anticipate our future energy supply needs correctly.

We do not want to end up with a program that inhibits the ability of our industry to reliably supply fuels to consumers.

It is very important to WSPA that the assumptions used are reasonable and that the process going forward improves upon the knowledge base and tools needed to choose the best pathways to meet the WCI goals. These pathways must be scientifically sound, technologically feasible and cost-effective. One way to ensure all of the criteria are met is for WCI to be able to link with other national and international market programs – especially through the use of offsets.

WSPA understands and supports WCI's premise that offsets must be real, quantifiable, verifiable and enforceable. Third party verification is essential to validate the integrity of offset projects and measurement of covered emissions or amounts of GHGs sequestered. Certification of offsets should be based on use of approved methodologies and external verification methods.

While agreeing with WCI's goal to create a credible offset system, WSPA is concerned that WCI's current approach to the design of its offset program may result in a program that will be overly stringent, and may thereby limit the use of the credible offsets it is meant to encourage. WCI criteria must not be so rigid that they preclude the WCI partners' ability to link with other functioning market programs.

We view many of the definitions and design options discussed in the white paper as overly cumbersome and detailed for this stage of WCI's offset program design. WSPA believes that it will be critical to both the successful implementation of the overall WCI cap-and-trade program and the achievement of the WCI's emission reduction goals to have the WCI offset program designed so that it is workable in the near term.

WSPA believes that WCI should structure the definitions and design elements of an offset program to enhance the ability of facilities to use high quality, international offsets. A program that recognizes the value of offsets has to ensure that global GHG reductions are made at the lowest cost. A robust offset program is crucial to both the environmental effectiveness and cost-effectiveness merits of a market program.

We applaud the WCI and the leaders of the member states and provinces for their early recognition of the benefits of pursuing a "multi-sector", "market-based" mechanism to achieve the regional GHG reduction goal. A market-based mechanism, such as a cap-and-trade program, provides environmental benefits and cost-effectiveness.

A cost-effective program is necessary in order to achieve the ambitious emission reduction targets set out by the WCI.

However, the WCI must recognize that to function effectively, the market-based program must be well designed and include a functioning, workable offset program. WSPA has submitted numerous comment letters, outlining how broad, global offsets represent one of the most effective cost-containment design features of a well designed cap and trade program. We urge that the WCI design its program to take advantage of broad offsets and their cost-effectiveness.

Look to Kyoto Protocol and Federal Legislation for Offset Definitions and Criteria

Use of the UN Clean Development Mechanism (CDM) Certified Emission Reductions (CERs) is critical to the success of the WCI program because it is a way to help assure offsets are high quality and globally tradable. However, it is important that WCI recognize and consider that negotiations currently underway through the Bali Action Plan have the potential to generate major changes to the international offset regime post-2012.

These major changes include the possibility of essential reforms to CDM and creation of entirely new mechanisms, for example to promote offsets from land use and forestry.

CERs are considered difficult to generate and carry more weight than other voluntary un-enforced programs. Purchasers of offsets must be assured that the credits they are purchasing are tied to real and verifiable projects. This provides certainty for both compliance purposes as well as to help ensure the environmental goals of the program are met.

We believe that WCI must look to the Kyoto Protocol and associated reforms plus any new arrangements created for the period post-2012, and to potential U.S. and Canadian Federal legislation for the definitions of offsets criteria. Any differences will make it difficult for harmonization and will only create unnecessary restrictions that will lead to leakage and increased program costs.

Keep It Simple and Linked

Further, WSPA believes that the WCI program will only be effective if it stimulates innovation and technology that translates to global emission reductions outside the WCI partners. For that to happen, the program must be as simple as possible – simple to implement, easy to administer and with easy compliance requirements for offset providers and offset users. .

A complex program will only lead to administrative burdens, more bureaucracy, complicated approval processes and ultimately delays in achieving reductions. With that in mind, we believe that WCI's offset program should leverage and link to other already working programs such as the EU ETS, the CDM and JI programs and possibly other programs like those in Australia and New Zealand.

Ultimately, WCI should consider provisions that allow collapsing its offset program into a federal program when one is established.

Offsets Dramatically Reduce Program Cost to the WCI Regional Economy

Offsets are critical to the success and cost-effectiveness of WCI's GHG reduction program. For example, high quality, tradable offsets could save California more than \$20 billion in GSP by 2020 under AB 32¹. They have the potential to reduce costs of compliance with AB 32 by up to 80%², fundamentally decreasing the cost to society.

EPA studies demonstrate that similar benefits would apply in a national program³. Clearly this would be the case in the WCI program as well. The WCI's program must take advantage of this cost saving potential of global offsets.

¹ CRA Presentation. ARB Workshop on Modeling Offsets. April 4, 2008

² CRA Presentation. ARB Workshop on Modeling Offsets. April 4, 2008

³ EPA Analysis of Lieberman-Warner Climate Security Act of 2008 (S.2191)

WCI Offset Program Should Allow For Global Reductions and Should Not Impose Limits on the Quantities of Available Offsets

Climate change requires a global response. There is no scientific or economic reason to limit the location of where GHG emission reductions take place. To help WCI Partner's reach their environmental goals, WCI should ensure that geographically broad and unlimited quantities of qualified offsets are a cornerstone of its scoping plan.

Furthermore, WCI can reduce program cost by allowing use of such offsets with no negative environmental consequences. Allowing reductions anywhere to count for compliance will ensure that WCI meets the goal of reducing GHGs anywhere in the atmosphere at the lowest possible cost to society.

WCI's draft design document seems to limit offset availability to the US, Canada and Mexico. This is an undesirable restriction that will increase the cost of the program.

Studies have shown that if California geographically limits the availability of offsets from outside of state for its AB 32 program, it may cost the state almost 1% of the entire state GSP by 2020⁴. Similarly, WCI's desire to give preference to offset projects located within its jurisdiction is not the most cost-effective way to apply an offset program.

A ton of CO₂ has the same GHG potential, independent of its country or state of origin. WSPA believes that the WCI program should allow geographically broad offsets with no preference given to "in region" offsets, in order to reach the program's environmental goal at the lowest cost.

Rules that limit access to otherwise credible offsets distort market performance, may be a disincentive to undertaking viable projects, and will likely add to market volatility in the case of cap and trade systems. As Prof. Stavins has stated, "Although restrictions on offset use are often proposed as a solution to concerns about offset quality, geographic and quantity restrictions would do little to address quality." Instead, geographic and quantity restrictions simply introduce arbitrary decision-making about the acceptability of otherwise similar offsets

WCI's design document currently discusses establishing a limit on the amount of offsets that may be used for compliance. WSPA believes there is no economic or GHG reduction benefit to setting such a limit and that limiting offsets will significantly increase the cost of the program.

Well Designed Offset Program Must Provide Certainty

Consistent with our comments throughout this letter, we urge WCI to design the offset program carefully, so that it provides the certainty necessary for businesses to invest their resources into the program. We agree with the statement in the white paper that options such as requiring buyers of credits to assume the risk of reversals will significantly impact businesses' willingness to purchase offsets. On the other hand, buyers of an offset credit should be guaranteed its value, once it is issued.

⁴ CRA Presentation. ARB Workshop on Modeling Offsets. April 4, 2008
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Another aspect of program design that would impact certainty is how a project's eligibility as an offset project is affected by a law or regulation that would cease to make it additional. We believe it is in critical that re-evaluation of an offset project's value not occur during its defined crediting period.

Offsets Keep Jobs in the WCI Region

Making the program more expensive only means that both emissions and jobs will leave the region. It does not mean that a state's economy will boom or that new technologies will emerge.

For example it has been estimated that leakage – or the export of emissions – from a potential California cap-and-trade system (under AB 32) designed without access to offsets outside of California, will force more than 300,000 jobs to leave the state by 2020.

These jobs will leave together with the facility emissions.⁵ Thus, California will only be shifting the location of GHG emissions, not reducing global GHGs in the atmosphere. A similar outcome is likely for the WCI region if the program places geographic and quantity limits on offsets.

Offsets Ensure That the WCI Program Reduces, not Increases GHG Emissions

Allowing offsets will help WCI to reduce – rather than increase – emissions leakage. This occurs because low program costs avoid the shift of production to low-cost out of state/country locations. Emissions leakage will tend to increase GHG emissions because of added transportation costs and the fact that production of goods is occurring in locations with less stringent regulations.

Offsets Allow the WCI Region to Lead Internationally

Under the US Constitution, states are limited in their interactions with international institutions. For example, EU allowances are potentially eligible for compliance in California under AB 32, but allowances from a California program would not be eligible for compliance in the EU. For these reasons, it is difficult to construct a state or regional mechanism that would link WCI's program directly to the EU allowance markets.

Offsets can help bridge this gap. If the WCI program allows utilization of the same offsets as are available in the EU program, this helps tie the programs together and moves in the direction of a global price for carbon emissions.

For example, using the credits generated by the UN Clean Development Mechanism (CDM) would link the WCI program to the EU. Linking to national and international offsets will lead to decreased overall global emissions in a more cost-effective manner than a regional only offset program by creating a larger, more liquid market. It will also allow WCI to leverage off of and learn from the offset process that is already in place in the UN CDM and that may undergo significant expansion and evolution after 2012.

Use of Offsets Should Not Lead to a Tightening of the Cap

We are concerned that WCI members are considering tightening the cap because of the availability of offsets. This approach appears to misunderstand when and why facilities would use offset credits, and how offsets reduce the cost of the program.

⁵ CRA Presentation. ARB Workshop on Modeling Offsets. April 4, 2008

Offsets fill the gap when technology is not available or is available at a cost that is higher than the cost of offsets. Tightening the cap will only increase the number of offsets that must be purchased, and could lead to leakage should the number of offsets needed for compliance be cost prohibitive.

Leakage will lead to decreased – rather than increased – environmental efficacy of the program. It should be avoided.

Carbon Capture and Storage (CCS) Offsets

Finally, WSPA believes that WCI should allow offset credits for investments in carbon capture and storage (CCS). While currently not included in the UN CDM, CCS has growing international support as a viable offset for GHG emissions. Including CCS as an offset option in the WCI program would further stimulate scientific and implementation advances for this technology.

Thank you for considering our comments. We look forward to working with you and the WCI staff to ensure the success of this challenging endeavor.

If there are any questions, please contact me.

Sincerely,

A handwritten signature in blue ink that reads "Catherine A. Kelly-Boyd". The signature is fluid and cursive, with the first name being the most prominent.

cc: Lori Faeth
Warren Bell
Michael Gibbs
Jane Gray
Sarah Cottrell
Dave Van't Hof
Dianne Nielson
Patrick Cummins
Linda Adams
Dan Pellissier
Cindy Tuck
James Goldstene