



Western States Petroleum Association
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November 3, 2009

Via email: <mailto:eaac@calepa.ca.gov>

Dr. Lawrence Goulder, Chair
AB 32 Economic and Allocation Advisory Committee
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Subject: Economic and Allocation Advisory Committee (EAAC) Issues Relating to Environmental Justice (EJ), Offsets and Linkage

Dear Dr. Goulder:

As a follow-up to our August 6, September 16, and November 2, 2009 letters, the Western States Petroleum Association (WSPA) is submitting the following comments and recommendations to address issues relating to Environmental Justice (EJ), Offsets and Linkage. WSPA is a non-profit trade association representing twenty-seven companies that explore for, produce, refine, transport and market petroleum, petroleum products, natural gas and other energy supplies in California and five other western states.

In our previous comment letters, we have highlighted the desirable design elements of cap-and-trade programs (fair allocations, limited auctions, establishing a robust and broad offsets program, international linkage) on the California petroleum industry. The comments in those letters remain applicable to your upcoming discussions as the Economic and Allocation Advisory Committee (EAAC) formulates its recommendations.

WSPA recognizes the subject of offsets is complex and not easily understood, even by experts in the field. In the process of following the discussions at EAAC, we have serious concerns that at least some EAAC members may not understand the potentially significant impact that the EAAC recommendations will have on the California economy and jobs. We believe the attached comments will provide additional context for our observations and conclusions, and should help with your discussions.

Separation of environmental justice issues and the cap-and-trade system within the market design:

A large part of the discussions at EAAC meetings has been devoted to issues surrounding perceptions of disproportionately impacted (EJ) communities around or near facilities subject to the emissions limitation under a cap and trade program. Unfortunately, these discussions typically center on geographically or numerically limiting offsets which is the single cost containment option available to

those facilities, rather than addressing the impacts that may result from any disproportionate environmental impact.

The primary purpose of AB 32 is to reduce CO₂ and other greenhouse gas emissions. The impacts of CO₂ are recognized as not effecting human health regionally. Any environmental impacts to a community nearby a facility would therefore be from traditional emissions, not CO₂ or other global greenhouse gases.

EAAC has received a number of suggestions to address environmental justice issues, such as: addressing criteria pollutants; assessing co-pollutant surcharges; limiting the use of offsets; and, employing 100% use of auctions for allowance allocation to name a few. We agree with Harvard economist Robert Stavins, who has concluded that trying to achieve environmental justice goals through a cap-and-trade and limited offset program would lead to failure on all fronts.

A better way to achieve the benefits of both GHG market-based programs and localized co-pollutant reductions is to separate the two programs. Environmental justice concerns can best be addressed through complementary policies that specifically focus on criteria pollutants in neighborhoods of concern. This approach would avoid sacrificing the many economic and environmental benefits of GHG cap-and-trade and offsets programs while making it possible to target environmental justice concerns more effectively.

A program responsive to environmental justice concerns could be designed to address local impacts through cooperative efforts with regional Air Quality Management Districts and Air Pollution Control Districts. These agencies already have programs in place to reduce emissions impacting environmental justice communities.

Critical need for a sound economic analysis of limiting offsets as required by the Scoping Plan:

As set out in the California Air Resources Board (ARB) resolution of December 11, 2008 that adopted the Scoping Plan, we believe that a critical mission of the EAAC is to help ARB develop an economic analysis to support the State's GHG emissions reduction program. An especially important element in this analysis is the study of the value-added role that offset programs can play in mitigating the economic impact of emission reduction programs.

WSPA urges the EAAC to conduct a comprehensive economic analysis so that the ARB can make an informed decision about the benefits of offsets and quantify the contribution to reducing the economic impact of GHG emission reductions. We are confident that a comprehensive analysis will demonstrate that offsets that are real, additional, permanent and verifiable will provide crucial cost-containment necessary to achieve a cost-effective program while meeting the global goal of reducing greenhouse gas emissions.

Critical need for a sound economic analysis of a California cap-and-trade program with federal and WCI scenarios

Aligned with Prof. Stavins's publications, WSPA believes that, should a federal GHG control program be put into place, co-existing state and regional GHG control programs will not significantly further global climate change goals and will be costly for the states/regions that implement the state/regional programs. It is difficult to design a federal program that effectively reduces GHG emissions (without leakage) and does not adversely impact the US economy. This is an even more challenging task for a state only program.

Based on previous EAAC meetings, it appears that EAAC will provide recommendations based on its analysis of a California-only AB 32 program. This approach is overly constraining and likely lead to

erroneous results as it would ignore the impacts of a federal program which will create duplicative and costly overlap.

WSPA believes it is critical for EAAC to analyze the economic impacts of a California program in light of possible federal GHG emission reductions programs. A comprehensive analysis involving aspects of the AB 32 program and other elements of proposed national efforts can only serve to better inform the ARB and the public as these programs move toward implementation.

Conversely ARB staff has continued to rely on a program that envisions linkage to other WCI states and provinces to assist in cost containment and to establish a broader market. In the absence of an over riding federal program, WSPA supports linkage of the CA cap-and-trade program with market based programs established in WCI states with similar criteria ensuring that a tonne is a tonne.

To date however, no legislation authorizing cap-and-trade or other market mechanisms has passed in any of the other WCI states or provinces. If WCI partners pass appropriate legislation, it will take time for the WCI states or provinces to implement their programs. (For example, using the California experience, it can take 5 years, or more, to fully implement legislation and regulations supporting GHG controls). We recommend therefore that EAAC not rely heavily on the assumption that the WCI states and provinces will have GHG market based programs in place in the early years.

Key economic indicators

California is embarking on a major program that could have significant impact on its economy. EAAC should recommend that the ARB and other appropriate state agencies monitor key economic indicators to provide early warning signals in the event that corrective action or amendments to regulations are necessary to prevent unforeseen and adverse economic impacts. Monitoring of key economic indicators will provide data necessary to facilitate California's ability to take corrective action in a timely fashion.

As we have pledged in the past, WSPA will content to provide input and information to the EAAC and the ARB. We look forward to working with you in the future and thank you for considering our comments.

Sincerely,

A handwritten signature in blue ink, appearing to read "Catherine A. Boyd". The signature is fluid and cursive, with the first name "Catherine" being the most prominent part.

cc: Linda Adams, Secretary, Environmental Protection
Kevin Kennedy, ARB Office of Climate Change
Lucille Van Ommering, ARB, Office of Climate Change
Richard Varenchik, ARB, Office of Climate Change