



Steve Cliff
Chief, Climate Change Program Evaluation Branch

Rajinder Sahota
Manager, Climate Change Program Monitoring Section

California Air Resources Board (CARB)
1001 I Street, Sacramento, CA 95812

January 23, 2012

Subject: Comments of Environmental Defense Fund, The Nature Conservancy, and the Center for Resource Solutions on the proposal to link California's cap-and-trade program with Quebec's program.

Dear Mr. Cliff and Ms. Sahota,

On November 14, 2012, working with the other members of the Pacific Coast Collaborative, Governor Brown issued the following joint statement of unequivocal support for regional efforts to cut greenhouse gases:

"Confronting climate change requires concerted effort within each jurisdiction and across the region on several, interconnected fronts."

California's proposal to link its cap-and-trade program with Quebec's program is a significant step forward for the state, in alignment with Governor Brown's stated priorities, and important to facilitate broader regional action to reduce carbon. Accordingly, we fully support the proposal to link the two cap-and-trade programs and offer the following comments for the rulemaking record. We appreciate CARB's recent additions to the regulatory record which include a summary of cap-and-trade regulatory amendments in Quebec and an analysis under Government Code section 12894, which lays out specific findings that the Governor must make before independently approving any linkage proposal.

- 1. Environmental integrity is key, and Quebec's program meets the California stringency level**

Throughout this rulemaking, our primary interest has been to ensure the environmental integrity of California's cap-and-trade program. CARB has articulated this interest clearly in their analysis under Government Code section 12894, demonstrating that linkage efforts will achieve environmental integrity and that California has retained its ability to effectively enforce our statewide program.

Since California and Quebec have both been part of the Western Climate Initiative (WCI), they have been on parallel tracks toward designing cap-and-trade programs with substantially similar core programmatic elements. These elements include stringency of the cap, reliability of mandatory reporting requirements, stringency of offset protocols, limits on borrowing, and adequacy of penalty and enforcement mechanisms. Each of these elements is of great importance for ensuring integrity, and each has been incorporated into Quebec's program through harmonization facilitated by WCI participation.

Going forward, it will be important for both California and Quebec to identify programmatic elements that continue to further environmental integrity. As planned, joint auctions, a shared compliance instrument tracking system, and equivalent holding limits will achieve that goal.

In sum, we appreciate CARB's thorough discussion of section 12894's requirements, and believe it adequately demonstrates Quebec's program is sufficiently strict and enforceable. Furthermore, and equally as important, the program linkage analysis clearly shows that California retains its own enforcement authority.

2. Linkage with Quebec is a transformative step forward, and will benefit California

Showing that two separate governments, in two separate countries, with two separate economies, can effectively partner to put a price on carbon and reduce greenhouse gas emissions is a transformative step for North America; a step that can, as the Legislature intended, jumpstart a regional effort to join the growing international movement that is desperately needed to combat the threat of climate change.

In general, expanding California's carbon market will provide both economic and environmental benefits for the state in the form of greater market liquidity and an expanded base of emission reduction opportunities. Based on the analysis provided in the staff report, linkage with Quebec will also help drive capital flows into the state to buttress California's clean energy sectors and capture in-state reductions, offering even greater benefits.

3. Transparency of the linkage process remains important

CARB's ongoing commitment to develop the cap-and-trade program and linkage process in an open and public process, exemplified by the four separate opportunities to provide public comment, has been exceptional. Going forward, we urge the Board to continue the collaborative theme and establish a clear process that will provide the public with notice and opportunity to comment on any significant changes that may occur within a linked jurisdiction.

In addition, though CARB has worked closely and effectively with their Quebecois counterparts to date, we urge the board to direct staff to enumerate how this relationship will continue after the programs have linked. Similarly, CARB staff should enumerate what remedies are available in either jurisdiction in the unlikely scenario that either jurisdiction decides linkage no longer serves their interests. Further, California must ensure that any changes made within a linked jurisdiction do not threaten the environmental integrity or overall benefits that California seeks to achieve through linkage.

We look forward to working with CARB as it moves forward with linking to Quebec and as implementation of the cap-and-trade program continues.

If you have any questions or concerns regarding the comments made in this letter, please contact Erica Morehouse at emorehouse@edf.org; (916) 492-4680.

Sincerely,

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