APPEARANCES

BOARD MEMBERS
Ms. Mary Nichols, Chairperson
Dr. John Balmes
Mr. Hector De La Torre
Mr. Phil Serna
Professor Daniel Sperling

STAFF
Mr. Richard Corey, Executive Officer
Mr. Alberto Ayala, Deputy Executive Officer
Ms. Lynn Terry, Deputy Executive Officer
Ms. Ellen Peter, Chief Counsel
Ms. La Ronda Bowen, Ombudsman
Mr. Sean Donovan, Air Pollution Specialist, SSD
Mr. Michael Gibbs, Assistant Executive Officer

ALSO PRESENT
Mr. Frank Harris, Southern California Edison
Mr. Alex Jackson, NRDC
Ms. Alex Leumer, TNC
Ms. Erica Morehouse, EDF
Mr. Brian Nowicki, Center for Biological Diversity
Mr. Mark Krausse, PG&E
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CHAIRPERSON NICHOLS: Good morning, everybody. Apologize for being a little bit late this morning. But we're here. And fortunately, we only have one item of business before us. So it's not going to be a terribly long meeting, but it is a very important meeting. So we welcome those that are here and all of those who are watching us courtesy of the web.

We will begin by calling the meeting to order. And as we always do, we will ask those who are here to stand and say the Pledge of Allegiance to the flag.

(Thereupon the Pledge of Allegiance was Recited in (unison.)
CHAIRPERSON NICHOLS: Madam Clerk, would you please call the roll?
BOARD CLERK JENSEN: Dr. Balmes?
BOARD MEMBER BALMES: Here.
BOARD CLERK JENSEN: Ms. Berg?
Mr. De La Torre?
BOARD MEMBER DE LA TORRE: Here.
BOARD CLERK JENSEN: Mrs. Riordan?
Supervisor Roberts?
Supervisor Serna?
BOARD MEMBER SERNA: Here.
BOARD CLERK JENSEN: Dr. Sherriffs?
Professor Sperling?

BOARD MEMBER SPERLING: Here.

BOARD CLERK JENSEN: Chairman Nichols?

CHAIRPERSON NICHOLS: Here.

BOARD CLERK JENSEN: Madam Chairman, we have a quorum.

CHAIRPERSON NICHOLS: Great. Thank you.

And we have a couple of announcements. Just to remind people that if you wish to testify this morning, you need to fill out a request card. If you signed up online, you need to check in with the Clerk anyway just to make sure that you get called on. We will impose our usual three-minute time limit on speakers this morning, although I think we have some time. So if we need to extend it, we will. But generally speaking that's a pretty good practice that we follow here.

I'm also required by the rules of this building to tell you that there are emergency exits to the rear and both sides of this podium that I'm sitting at. And that in the event of a fire alarm, we're required to evacuate this room immediately and go downstairs and out of the building until you hear an all-clear signal. And then we return into the hearing, we will resume.

Before we begin, I also want to welcome officially and formally Richard Corey as the newly
appointed Executive Officer of the Air Resources Board. Richard brings 28 years of professional experience to this position, including an impressive track record of accomplishments within the Air Resources Board.

Immediately prior to his appointment as Executive Officer, Richard served as Deputy Executive Officer, overseeing the Stationary Source Division where he was responsible for a broad range of programs, including fuels, incentives, air toxics and climate change, just a small range of our activities.

Richard's first meeting as Executive Officer is today. So we're looking forward to his continued leadership in his new role. And I don't know, Richard, if you wish to add anything to that, say hi. You're welcome to add a couple remarks, if you want to.

DEPUTY EXECUTIVE OFFICER COREY: I will, Chairman Nichols, very briefly. I very much appreciate the opportunity.

When I came to the Board in '85, I had great respect for the organization and what it had accomplished with respect to public health improvement really here, throughout the country, and the world, but through its leadership. And throughout my time here, it's become abundantly clear a great policy, great policy comes from administration, legislative, and Board leadership and
vision, a committed and technically exceptional staff relying on the best science, effective work with stakeholders and ongoing administration and oversight. Those are the things that continue to drive the process.

I look really forward to continuing to work with the Board, staff, districts, and many stakeholders to develop and implement effective programs that address our air quality challenges and improve public health. And appreciate and thank you for the opportunity.

CHAIRPERSON NICHOLS: Thank you very much.

All right. Well, as I mentioned we have one item on today's agenda, but it's a big one. We're proposing to modify the cap and trade regulation in order to consider proposed regulatory amendments creating a linked market program between California and Quebec beginning in 2014. This is an historic step for California as well as for our partners in Quebec. It marks the culmination of almost five years of work and extensive coordination between those two jurisdictions.

The action that we are taking today is also an example of dedicated commitment to the goal of fighting climate change that transcends administrations, politics, and even language. It's a clear recognition that the danger we face in climate change, that is, the danger that we are experiencing even now in a variety of ways, rises
above national, State, or provincial boundaries. It is
truly a global problem, and it will only be addressed by
different countries, states, and provinces working
together towards a single common purpose.

Last week, Governor Brown reminded us of this
when he was in China giving some remarks at Tsinghua
University and focused on the point: "We are one world,"
as he said. "We've got one big problem, and we all have
to work on it. What's beautiful and exciting about
climate change is no one group can solve the problem. Not
the United States, not California, not Japan, not China.
We all have to do it. Climate change is a great unifier.
This is an imperative where human beings could
collaborate." That was a quote from Jerry Brown.

On the eve of his departure to China, the
Governor supported the consideration of this item when he
formally indicated that the Quebec program is as stringent
as California's, a finding that was required by
legislation passed last year. The Governor's decision to
move forward was supported by a legal analysis with the
linkage with Quebec that was provided by the Attorney
General Kamala Harris. In his letter, the Governor also
noted that now "CARB and the Quebec Ministry of
Environmental will test and evaluate their auction
platforms and trading systems to ensure that they are
fully compatible and ready to be implemented and that
linkage can be accomplished without disruption to
California's program."

So we now have in hand the finding from the
Governor supported by the advise of the Attorney General.
And, therefore, it's up to the Air Resources Board to move
this issue forward.

When I met two days ago in San Francisco with the
Executive Director of the United Nation's Framework
Convention on Climate Change, Christiana Figueres, she
pointed out that, worldwide, we're not moving as fast as
we need to to fight climate change. And that while
nations may not be able to make agreements and live up to
accords even that they have signed, subnationals, as they
are called, that is, us states and provinces, are, indeed,
making progress and keeping the rest of the world moving
in the right direction toward the creation of more efforts
to reduce our dependence on petroleum fuels and to create
a larger carbon market.

By joining with Quebec, we will be doing just
that, offering California businesses more options within
the program and also assisting in creating an even more
robust market than we have today. We are showing the
world that meaningful and mutually beneficial arrangements
between jurisdictions can be put in place to reduce
greenhouse gases.

    I think it's important that we remember that the Legislature in passing AB 32 reminded us that it's our job to facilitate the development of integrated, regional, national, and international greenhouse gas reduction programs. So this is not some new venture for the Air Resources Board. The law itself saw that moving forward by linking programs could provide a framework for additional partners to join and to demonstrate a workable template for urgently needed action.

    Recently, I had the opportunity to meet with Quebec's Minister of the Environment, Yves-Francois Blanchet, and other officials as well. And I was really impressed by their commitment, which is very strong and very clear, to move as aggressively and effectively as we could possibly wish and to do so in a way which will complement our own efforts.

    As of last June, in fact, Quebec took steps to amend its own cap and trade regulation to follow in areas where we needed them to harmonize with our programs so that we would be able to fully recognize allowances that are issued by Quebec.

    We move forward, I would say, in a fairly deliberate manner. As I said, it's taken five years to get to this point. And at no step of the way have we
failed to carefully test and evaluate what the consequences of this kind of linkage could be.

I especially want to thank the staff, ARB, and Cal/EPA who, as well as their counterparts in Quebec, spent hundreds of hours in phone calls as well as traveling back and forth between California and Canada working to ensure that our programs parallel one another and can be linked together seamlessly.

I also again want to thank the Governor for his support, vision, and dedication and commitment to fighting climate change and setting an example for the rest of the country and the world.

So what we've got before us today represents I think one more step, the next logical step, in the implementation of the cap and trade program which again is only one piece of our climate program, but it certainly is an important one because it is setting a benchmark for the rest of the world.

Clearly, this is the kind of program that is not meant to be run by and for one state or even one country alone. It needs to be something that will entice and involve others. So it's really tremendously gratifying that we had found at least at this point one very brave and effective jurisdiction that wants to be part of our efforts and, of course, we will be part of theirs as well.
So I think it's time to move on. At this time, I would like Mr. Corey to introduce the item.

DEPUTY EXECUTIVE OFFICER COREY: Thank you, Chairman Nichols.

As you mentioned, staff will present for Board consideration proposed linkage amendments to the cap and trade regulation. These changes enable us to link California's program with the program operated by Quebec. We're asking that you vote to adopt the amendments that would link the two programs beginning 2014.

California and Quebec are partners in the Western Climate Initiative and coordinated on the design of respected program over the last several years. This resulted in similar programs that require minor changes to harmonize for linked programs.

We've been working for the past two years to develop infrastructure, such as the instrument tracking system and auction platform, to serve the needs of market participants in California and our partner jurisdictions. This process will be completed over the next few months to allow implementation of a linked program with Quebec.

The Board may recall at the June 2012 hearing that they were poised to act on the proposed linkage amendments, but Senate Bill 1018 was adopted by the Legislature that day and subsequently enacted. SB 1018
requires the Governor make four findings prior to any
State agency linking programs with another jurisdiction.

On April 8th, 2013, the Governor sent a letter to
the California Air Resources Board making the required
finding under SB 1018. As such, we're here today to
request the Board vote on the proposed regulatory
amendments. Board action to approve the proposed
amendments would link to two programs beginning in 2014.

Now, Mr. Sean Donovan from the Climate Change
Program Evaluation Branch will begin the staff
presentation.

(Thereupon an overhead presentation was
presented as follows.)

AIR POLLUTION SPECIALIST DONOVAN: Thank you, Mr.
Corey.

Good morning, Chairman Nichols and members of the
Board.

This Board item is to discuss staff's proposed
linkage amendments to the cap and trade regulation. The
proposed amendments allow for linkage of California and
Quebec's cap and trade programs. Linkage would allow
California entities to use Quebec issued compliance
instruments to their client's obligations in California
and for California issued compliance instruments to be
used in Quebec by their entities.
Before I discuss the proposed amendments, I will also provide a brief update on the status of California's program. Next, I will describe the linkage process and the proposed amendments. I will then give a general description of Quebec's program design and follow up with a discussion of the Governor's findings pursuant to Senate Bill 1018.

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AIR POLLUTION SPECIALIST DONOVAN: California's long-standing pollution control programs have demonstrated that strong environmental regulation and economic growth can go hand in hand. AB 32 represents a pioneering effort to address climate change by mandating a 2020 greenhouse gas emissions target equivalent to 1990 emissions levels.

As discussed in the Scoping Plan, the Cap and Trade program is a key component of the suites of measures being implemented to meet AB 32 mandate. The enforceable, declining cap is designed to ensure we meet the AB 32 goal, providing a powerful backstop so that even if other measures do not achieve their estimated reductions, we will meet our objective.

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AIR POLLUTION SPECIALIST DONOVAN: The program creates a carbon price that provides a broad economy-wide incentive for investment in clean technology and increased
energy efficiency.

Finally, the proposed linkage regulation would also meet another requirement of AB 32, the development of integrated regional, national, and international greenhouse gas reduction programs. Linking programs will provide a framework for additional partners to join, demonstrating a workable template for urgently needed action.

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AIR POLLUTION SPECIALIST DONOVAN: California's Cap and Trade Program has begun in earnest, and we are happy to report that it is running as anticipated. The regulation went into effect at the beginning of last year. In November 2012, we distributed allowances, and in the same month, we held our first auction. That auction was followed by another quarterly auction in February of this year. We will continue to hold quarterly auctions and reserve sales as needed.

This fall, staff will propose additional amendments to the cap and trade regulation to fine tune the program. I will touch more on that latter.

As we look ahead, the first due date for compliance obligations is in November 2014. That will be the first time regulated entities are required to submit compliance instruments. At that time, they will need to
cover 30 percent of their 2013 covered emissions.

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AIR POLLUTION SPECIALIST DONOVAN: This slide provides a time line of the development of the linkage amendments. We began this process back in February of 2012, when we held a public workshop to introduce the topic to stakeholders.

In May of 2012, ARB published the 45-day notice of proposed linkage amendments. This 45-day comment period included a concurrent 15-day comment period to add official regulatory documents from Quebec to public record.

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AIR POLLUTION SPECIALIST DONOVAN: The enactment of SB 1018 required the Governor to make specific findings about programs before California links. These findings are focused on the design of Quebec's Cap and Trade Program and were necessary to comply with the SB 1018.

ARB also had a second 15-day comment period in the beginning of this year, after which the Executive Officer requested that the Governor make findings about the proposal to link with Quebec in conformance with SB 1018.

Staff proposed a third set of 15-day changes, shortly after which the Governor provided his findings
about the proposed linkage with Quebec. The numerous comment periods and the Governor's review of the proposal to link with Quebec means the linkage proposal has been reviewed by multiple parties over the course of the last eleven months.

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AIR POLLUTION SPECIALIST DONOVAN: What do these proposed amendments look like? Linkage means that regulated entities in California could use Quebec-issued allowances and offsets to comply with the cap and trade regulation. And Quebec-regulated entities could use California-issued allowances and offsets to comply with Quebec's regulation. This ability to use compliance instruments in either jurisdiction would begin on January 1st, 2014, under the proposed amendments.

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AIR POLLUTION SPECIALIST DONOVAN: Staff is committed to providing an annual update to the Board on the status of the Cap and Trade Program. Additionally, if Quebec plans to significantly change its program, we will notify the Board and a public review of the proposed changes would be conducted at least six months prior to any new changes taking effect in Quebec.

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AIR POLLUTION SPECIALIST DONOVAN: The next four
slides provide a summary of Quebec's Climate Change Program and focus on its Cap and Trade Program.

Bill 42, similar to AB 32 in California, requires Quebec to address climate change and authorizes the establishment of a Cap and Trade Program.

Quebec's 2020 green greenhouse gas emissions target is 20 percent below the 1990 levels and, thus, more stringent than the 2020 target mandated in AB 32.

Like California, Quebec has been a WCI partner jurisdiction for six years and participated in the development of the WCI recommendations for a regional market program.

Prior to the coordination efforts that began last year to harmonize the California and Quebec regulations for linkage this year, Quebec had existing mandatory greenhouse gas reporting and cap and trade regulations based on the WCI design recommendations.

Last December, Quebec finalized amendments to their existing mandatory reporting and cap and trade regulation that harmonize their regulations and allow for a joint market program with California.

It should be noted that the size of Quebec's emissions inventory is approximately one-fifth the size of California's program in terms of the total greenhouse gas emissions, although covered sectors are the same.
As we walk through the program in a bit more detail, it is important to note that in order to link, not all areas need to be identical. However, overall, it is important that the programs have similar stringency and rigor to support a joint market. As part of the formal program oversight, staff from both jurisdictions will monitor their programs and recommend any changes to the respective regulations, as needed.

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AIR POLLUTION SPECIALIST DONOVAN: A rigorous mandatory reporting program is essential to support an effective Cap and Trade Program. Quebec's mandatory reporting program is consistent with the WCI design recommendations and California's mandatory greenhouse gas reporting program.

Both programs require reporting by the same types of industrial sectors with an identical threshold for inclusion in the Cap and Trade Program.

Quebec's reporting methods for each sector are consistent with the requirements in California's regulation.

And, like California, Quebec requires third party verification of its greenhouse gas inventory reports.

The final amendments to Quebec's missing data provisions were strengthened to align with California's
provisions. These are important to deter gaming and provide a conservative estimate of greenhouse gas emissions. Both regulations exceed the minimum recommendations to support a rigorous market program as developed by WCI.

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AIR POLLUTION SPECIALIST DONOVAN: As in California, Quebec's Cap and Trade Program is also an economy-wide program that covers the largest greenhouse gas emitters and electricity importers. There are an estimated 80 total regulated entities, representing the same covered sectors as California's regulated entities.

The program is designed with the same holding and purchase limits so that all regulated entities in a joint program would be held to the same requirements to ensure market integrity.

Like California, Quebec has quarterly auctions and reserve sales. As part of a joint program, California and Quebec would hold joint quarterly auctions. Both programs have an allowance price containment reserve which is comprised of allowances set aside from the annual allowance budgets. Reserve sales would be held separately, and only California entities would be able to buy at the California reserve sale.

Quebec also has a three-year compliance period,
but does not require a partial annual surrender as California does. Staff does not believe this presents any concerns as part of a joint program.

Quebec's regulations include the same identity verification requirements as California before individuals are given accounts in the tracking system. And the enforceability provisions in Quebec's program are equivalent to those in the California program.

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AIR POLLUTION SPECIALIST DONOVAN: This slide provides an overview of the offset program in Quebec. The offset criteria and offset issue process in Quebec are consistent with the design of California's program. There are similar stringency for offsets to meet the AB 32 offset criteria and program and oversight by the government of Quebec.

As with California, Quebec also has an eight percent offset usage limit for their regulated entities.

The Quebec regulation includes three compliance offset protocols. The livestock protocol requires the capture and destruction of methane similar to the ARB livestock protocol. The ozone depleting substances protocol only applies to ODS from foams, as Quebec has a program in place to address refrigerant ODS. And those reductions would not be considered additional.
The small landfill protocol requires the capture and destruction of methane at landfills that have less than 450,000 tons of residual waste in place. This protocol only applies to small landfills, as California has a regulation that requires landfills larger than that threshold to address methane emissions. By setting this threshold, Quebec avoids providing offset credits to large landfills that would be regulated if they were in California.

At this time, ARB's protocols only apply to the United States and Quebec's protocols only apply to projects that occur either in Quebec or Canada. This prevents project developers from shopping for a jurisdiction with less stringent protocols. They will only have one choice, depending on the location, for which jurisdiction would issue offsets and which protocol is applicable to an offset project.

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AIR POLLUTION SPECIALIST DONOVAN: For the proposed regulation amendments, staff performed a California Environmental Quality Act environmental analysis in accordance with ARB's certified regulatory program. The analysis is based on potential compliance responses of covered entities and relies on the prior analysis performed for the cap and trade regulation in he
Appendix O to the October 2010 staff report, referred to as the FED.

For the California linkage amendments, the analysis found some potential indirect impacts that may occur due to California entities seeking out Quebec-issued offsets. These indirect potential impacts would be similar to those described in the FED and staff report for the landfill measure, which found the livestock protocol has the potential for significant adverse impacts to odors, cultural resources, noise, and transportation traffic.

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AIR POLLUTION SPECIALIST DONOVAN: As I mentioned earlier, prior to linkage, SB 1018 requires the Governor to make four findings. This slide contains a summary of the findings required under SB 1018 before California can link with another jurisdiction.

Those conditions are:

1. That the linking jurisdiction's program is equivalent to or stricter than California's.
2. That California will continue to be able to enforce AB 32.
3. That linking jurisdiction has the ability to enforce its own regulation.
4. That the proposed linkage amendments will not
create a significant liability for California.

The Executive Officer at ARB sent a letter to Governor Brown in February, requesting that he consider the proposed linkage with Quebec and the findings required by SB 1018.

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AIR POLLUTION SPECIALIST DONOVAN: On April 8th, the Governor responded to ARB's letter. He found:

1. That Quebec's program is similar to or identical to California's in all material respects.
2. That linkage does not change California's ability to enforce AB 32.
3. That Quebec's regulations provide for equivalent enforcement of its Cap and Trade Program.
4. That linking will most likely not lead to any significant liability.

The Governor's letter also directs the Air Resources Board to begin preparing for linkage and to provide a linkage implementation status report later in the year.

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AIR POLLUTION SPECIALIST DONOVAN: As directed in SB 1018, the Governor also sought a review of the linkage proposal from the Attorney General's office to help inform his decision. As an attachment to the letter provided by
to ARB, the Governor's office released the written response from the Attorney General's Office of their review of the linkage proposal.

The Attorney General agreed that there was an adequate basis for the Governor to make the four findings under SB 1018. Both the Governor's letter and Attorney General's letter are publicly available on the Governor's and ARB's websites.

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AIR POLLUTION SPECIALIST DONOVAN: Let me now turn to stakeholder comments.

During the rulemaking process, we received approximately 37 public comment letters regarding the proposed regulation amendments. There were three categories of comment types:

The first was that California stakeholders would like an opportunity to comment on any future changes made to a linked jurisdiction's program.

Second, stakeholders want their specific issues, unrelated to linkage, resolved prior to linking with another jurisdiction.

And third, stakeholders would like to know what happens in case linked programs decide to de-link.

Let me address each of issues. With regard to changes in a linked program, staff is proposing to provide
a report to the Board on any changes to a linked program at least six months prior to the changes taking effect. This report would include any staff recommendation, as needed. And it would provide an opportunity for stakeholders to raise any concerns with the Board.

With respect to program modifications, the Board is already aware that staff plans to propose additional amendments to the Cap and Trade Program in the fall of this year. Any market-related amendments will be coordinated with Quebec to ensure the programs remain harmonized. Whether the programs link now or later, both jurisdictions would need to coordinate on any changes to their programs to prepare for linkage at any date.

As for de-linking, any process to de-link would require a regulatory action informed by the specific circumstances. However, the approach we plan to define for de-linking would adhere to important principles, including minimizing adverse impacts on participants in the program, and engaging with stakeholders to the greatest extent feasible.

Unless there are extraordinary circumstances, staff anticipates that any Quebec compliance instruments held by California entities would remain valid for compliance.
AIR POLLUTION SPECIALIST DONOVAN: Now I will turn what happens what needs to happen prior to and after linkage.

Staff will provide an update at the October Board hearing on the readiness for implementing a linked program. As the Governor indicated in his letter, ARB is to produce a report in November about the readiness of a linked programs. This report will be delivered to the Governor and Cal/EPA.

The Executive Officer will work to finalize the agreement with Quebec that lays out the coordination to implement the linked program. If the amendments are approved, the California and Quebec programs would be linked starting on January 1st, 2014.

Finally, we will update the Board about any future changes to Quebec's program after the programs are linked. As I mentioned earlier in the presentation, staff plans to propose additional regulation amendments to the Cap and Trade Program this fall.

Besides the proposed new offset protocols, staff may also propose amendments to the regulation concerning the follow subjects: Benchmarking and linkage review, allocation for new sectors, "but for" cogeneration, cost containment, resource shuffling, compliance assistance for California universities, legacy power generator contracts,
and implementation related amendments.

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AIR POLLUTION SPECIALIST DONOVAN: Here we are at the last and most important slide of my presentation, the staff recommendation.

After years of work and program development, we recommend that you vote to approve Resolution 13-7, which would link California's program with Quebec starting on January 1st, 2014. We urge you to direct staff to report back to you in the fall regarding the status of the auction platform, linkage systems and whether there are any impediments to linking.

This concludes the staff presentation. We'd be happy to answer any questions you may have.

CHAIRPERSON NICHOLS: Thank you.

We have six witnesses who have signed up. Of course, we received comments over the course of the period that this regulation has been under review and the various 15-day packages. So we've gotten hundreds of comments along the way. But we do have six people who are actually here today to provide some further oral comments.

But before we do that, I'd like to ask if Board members have any questions of staff before we begin. Okay.

If not, we will call Alex Leumer. Alex.
MS. LEUMER: You were close. Alex Leumer.


MS. LEUMER: So Alex Leumer with Nature Conservancy, Climate Change Policy Associate.

The Nature Conservancy is supportive of the linkage program and encourages the program to approve the resolution. It's important to leverage additional greenhouse gas reductions beyond California's borders and address the enormity of this problem.

California can't do it alone and it's not. As is provided in the Governor's language in the resolution, we are extremely supportive of ARB developing a process for public review and input with respect to any changes which may occur to Quebec's program in the future to ensure both programs maintain comparable levels of integrity. We commend the staff on their hard work on the resolution and encourage you to support it.

Thank you so much for the opportunity to speak.

CHAIRPERSON NICHOLS: Thank you. Just ask you a question since we have a little time. Is TNC doing any work in Quebec? I know you have an international program.

MS. LEUMER: Not -- no. Not on the linkages there. It's mainly just California's program.

CHAIRPERSON NICHOLS: But in terms of your other conservation activities?
MS. LEUMER: Yeah. Yeah. I'm not -- I mean, I can't speak to a lot of the stuff that's going on. If you'd like to know more, I can definitely send you more information on it.

CHAIRPERSON NICHOLS: I'm just curious. It would be interesting to see if there's any impact on the level of the kind of work that you do in forest and land conservation.

MS. LEUMER: I can get in touch with some colleagues and get back to you.

CHAIRPERSON NICHOLS: Okay. Thank you.

Alex Jackson.

MR. JACKSON: Good morning, Chairman Nichols and members of the Board.

My name is Alex Jackson on behalf of the Natural Resources Defense Council. Here to speak in support of the resolution to formally link California's Cap and Trade Program with Quebec.

We share Chair Nichols' assessment that today is indeed an historic day. It's not every day that two subnational governments formally link economy-wide Cap and Trade Programs to stand up and combat climate change. Indeed, today is the first and only day that has happened.

We do see tremendous benefits of this proposal. It will both expand the range of emission reduction
opportunities for California's program. Importantly, it will expand the total number of reductions you can expect to be achieved for both programs. That has an impact not only for climate change at large, but for California itself who is particularly vulnerable to the impacts we are seeing and will see in the future from unmitigated climate change.

Also, we see benefits to just enhance the resiliency and performance of California's market by linking into a more liquid and larger market, reduce the volatility, help deter efforts and manipulation, which we know we need to be vigilant about.

That said, we do know that AB 32 first and foremost must work for California. In that sense, we are very appreciative of the commitment from staff and the Board to always approach AB 32 in its implementing regulations through that lens and we very much support and appreciate the language in the Board resolution committing that effort to continue, even as these programs are formally linked.

To be clear, we do not see any cause for concern at this time. This is very much more of a safeguard insurance policy as we monitor the status of both programs moving forward as enforcement activities and increasing collaboration efforts continue. And we do share the
findings of both ARB and the Attorney General that this linkage satisfies the four findings set out in SB 1018.

All told, again, I think this is an historic day. This is a good thing. And we encourage the Board to vote it out. Thank you.

CHAIRPERSON NICHOLS: Thank you.

Erica Morehouse.

MS. MOREHOUSE: Good morning. Thank you.

Erica Morehouse with Environmental Defense Fund.

Last summer at the Board meeting on linkage, Chair Nichols, you noted that California and Quebec were engaged, but not yet married. And now that this steps of the marriage process are actually in progress, I think it's incredibly gratifying to be able to look around and note that this is a marriage that the entire international community is celebrating. And in a world without a global agreement to combat climate change, this type of partnership is the best and perhaps the only way to nurture progress.

The process that California and Quebec have engaged in, which began with the high level information sharing back in 2007 and it's telescope into line by line analysis to harmonize the regulations has sent a message to the world about California and Quebec's unwavering commitment to creating the most robust and effective
program for reducing carbon pollution.

The high standards for environmental integrity that California and WCI partners have set for themselves act as an inspiration force for nascent climate programs around the world and will create a race to the top on climate action.

We look forward to following the important steps that California and Quebec will take before this joint auction in 2014. And we look forward to remaining informed and engaged, as the relationship with Quebec moves ensures.

We applaud the CARB staff on their diligent work to date and urge the Board to vote in favor of this important milestone. Thank you.

CHAIRPERSON NICHOLS: Thank you.

Frank Harris is next, Southern California Edison followed by Brian Nowicki from Center for Biological Diversity and Mark Krausse from PG&E.

MR. HARRIS: Thank you very much, Madam Chair.

Good morning, Board members and staff.

I appreciate the opportunity to be able to address the Board today.

As you are no doubt aware, Southern California Edison has always supported a broad-based regional or national Cap and Trade Program to facilitate the most
effective and efficient emission reductions under AB 32. And we agree that today's step is a critical part of that process, and we congratulate the staff and the leadership on their efforts thus far.

When developing such a complicated program as we've seen over the years, challenges and events come up that one could not have predicted. And linking with another program increases that. So SCE suggested the staff continue to look for opportunities to keep the program as simple as possible. We feel that the potential for unforeseen challenges is minimized with a more simple program, more straight forward program. After all, the goal is to ensure that the linked programs work effectively, as a prior speaker stated, for California, but also to demonstrate cap and trade can work when involving all sectors and as many regions as possible.

We encourage ARB to participate in all -- to anticipate all possible challenges and to clearly develop approaches in advance of any challenges.

We're very pleased to hear, for example, the comments regarding the potential de-linking and the assurance that I presume under all but extraordinary circumstances a Quebec-sourced allowance would still be eligible to be utilized by a California participant who may be holding it at the time that that happens. That's a
critical advance plan for something that we all hope will not happen.

So we find that a very beneficial property of this linking agreement. Edison continues to support testing of the joint auction process. We are confident that such an approach will yield valuable information for all participants, the auction mechanism and system designers, as well as all stakeholders that are participating in this. And we look forward to participating in that process.

Again, we congratulate the staff and the Board on this important step. We look forward to working with ARB over the ensuing months for this year for the cap and trade amendments -- or the amendments to the program, I should say. And appreciate all the efforts thus far.

Thank you.

CHAIRPERSON NICHOLS: Thank you.

Mr. Nowicki.

MR. NOWICKI: Good morning. I'm Brian Nowicki with the Center for Biological Diversity.

I'd like to --

CHAIRPERSON NICHOLS: We are getting feedback from somewhere. Sorry to hold you up, but we wouldn't be able to hear you unless we can -- it's gone away for now. Why don't you go ahead.
MR. NOWICKI: I'm Brian Nowicki with the Center for Biological Diversity.

I'd like to thank the Board and the staff for the tremendous work that's gone into this regulation and the many ways that we see that it's been improved and really expanded since it was first proposed; for listening a great many of the comments and questions and issues that were -- turned out, not surprisingly, to be quite complicated.

I'd like to focus my small bit of time here just on one little portion of the resolution. And again to thank the staff and the Board for taking up this particular issue.

On page 9, there is a portion of the resolution that directs the, be it further resolved, at least six months prior to any of the following taking effect in a linked jurisdiction, the Executive Officer will provide a report to the Board that includes an assessment of environmental factors and provide a recommendation for Board action, if appropriate. And goes on to list a few different actions that would trigger that.

The reason why this is particularly important is because, as we've already heard, the regulation requires California to accept any offset credit accepted by a linked jurisdiction partner. And therefore, any offset
credit from any offset protocol, not just in California's partner, but partners of those partners and so on.

So that means that California with this regulation is committing to accepting not just offsets from Quebec under the current offset protocols, but any future protocols adopted by Quebec and any protocol adopted in the future by any of Quebec's future partners.

Obviously, it's impossible for ARB right now to determine whether these as yet undeveloped protocols will meet the requirements and standards of AB 32. Or whether there are potential detrimental environmental impacts associated with any of these protocols.

Now I'm today not bringing -- I haven't heard anybody else raise specific problems with Quebec's existing protocols. But I will note that Quebec's cap and trade regulation contains no environmental criteria for offsets or adoption of protocols in the future in that California's regulation requires -- this regulation requires Air Resources Board to ensure all offsets in the program are real, permanent, quantifiable, verifiable, enforceable, et cetera. But it does not provide for any determination of the environmental impacts.

And furthermore, the Western Climate Initiative agreements to which ARB and California are a party, they explicitly reject the notion of standards for
environmental or social impacts when evaluating protocols. I'll be done in one second.

Meaning that the different -- when a new protocol is brought up by one of those partner jurisdictions that the issues that can be brought to the table by the different partners, the agreements as they're currently laid out, explicitly exclude these environmental impacts. Which brings me back to the resolution today, which I think is very important and gets us in the right direction. I would like to see the Air Resources Board further explicate this as we go over the next few months as we get towards the end of the year and start to see perhaps new partners and new protocols coming online so that we can better develop and know how we're going to deal with that so we can evaluate those environmental impacts on the front end and be able to engage in those various arenas to address them.

CHAIRPERSON NICHOLS: Thanks, Brian.

I'm going to ask Mr. Gibbs I think to address your comment in a minute. But maybe we'll just get through all the testimony first and we'll have Board discussion. Thank you. You raised an important point.

Mark Krausse, I believe you are our last witness.

MR. KRAUSSE: I appreciate you letting me go last because I know Frank often cries at weddings.
Mark Krausse on behalf of Pacific Gas and Electric Company. PGE has long supported linkage with other cap and trade jurisdictions, and we support the resolution before you today.

As many have observed, we support linkage because it gives us opportunities for greater efficiencies in cap and trade and, of course, driving down the cost of carbon reduction opportunities.

I want to harken back to Richard’s comments on your congratulating him and do the same. One of the words he said and he said I think with heart is stakeholder involvement. And we’ve appreciated in this particular process in particular that staff has heard all of our input, taken much of it to heart, and we see it reflected in the resolution.

And in particular, a joint practice auction. We think that working through that and having stakeholder input that in process and working toward how things can be approved if there are issues, that makes us all, as Bob Fletcher said, it's a reduction in angst. So we appreciate that.

Another thing that was mentioned I think in the presentation we'd like to work more with staff on is the potential for de-linkage and that we have a checklist for what needs to be done if there is a need to de-link from
Quebec. So that isn't a, oh, no moment and everybody says what do we do now. But instead, we have the particulars. I don't think that's going to happen. But it gives us great solace that staff is open to take that approach. So with that, we strongly support the adoption of the resolution.

CHAIRPERSON NICHOLS: Thank you very much. We appreciate that.

I think it's important that we have clarity around how de-linking would happen. But at the same time, I think we need to be open and flexible about how we would respond to any given set of challenges. Because hate to keep overworking this marital analogy here, but if every time there is an argument or a fight somebody goes to court and starts filing divorce papers, that's probably not the sign of a very healthy relationship. This is obviously a balance that we are trying to maintain here.

MR. KRAUSSE: And my wife frequently cites the kind of rules we were talking about to make sure we don't have to get there, that there is a process for resolving that.

CHAIRPERSON NICHOLS: Thank you. Okay. I think it's probably time now to get the staff to respond to at least a couple of the comments that have been made. And Sean, I turn Michael because he's been so
integrally involved in the negotiations over the past five years. And when we mention the hard work of staff, there are many people who are seated at the table and others not in the room who have been involved. But I think we would be remiss if we didn't acknowledge the role that our Assistant Executive Officer has played in bringing us to this day.

So, Michael, congratulations to you. You must be breathing a deep sigh of relief at the moment that we are here.

But I would particularly ask you to talk a little bit about the point that we need to be clear and transparent going forward about development of protocols and maybe explain a little bit this language that was referred to about not putting environmental criteria into the adoption of protocols.

ASSISTANT EXECUTIVE OFFICER GIBBS: Thank you. And appreciate the opportunity to speak on this issue. And thank you, Brian, for your comment.

The area of offsets has throughout the development of this program been one of substantial discussion and interest and continues to be. And it's one that the staff here in California, in Quebec, and in other WCI jurisdictions have spent a lot of time working through to ensure we can have the appropriate integrity and level
of protections in the offset protocols that we would all
then be in a position to accept within our various
programs.

So as a first set of principles, we've all
throughout the process here in California, as well as the
other jurisdictions, including Quebec, have ascribed to
the need for all offset emission reductions and emission
sequestration, carbon sequestration to conform with a set
of requirements being additional, permanent, verifiable,
enforceable. And that's across all the offset protocols
and all the types of projects that have been approved here
in California, that have been approved in Quebec, and that
are embodied within the recommendations from the Western
Climate Initiative process that laid some of the
foundation and some of the groundwork for being able to do
this together.

As part of that work, there was also considerable
discussion about whether these protocols should go beyond
just the greenhouse gas emissions benefits, which they're
designed to produce. So these are greenhouse gas
emissions reduction or greenhouse gas sequestration and
protocols. So they're about greenhouse gases. And
whether they should go beyond that and raise the bar and
produce additional environmental or habitat or cultural
benefits beyond the greenhouse gas benefits.
And as the group was developing them, we felt it was, first of all, critical that any protocol or protocol project recognize that the activities that are producing the greenhouse gas benefits must be in compliance with all other requirements that exist locally for land use, for habitat, for other benefits. Any protocol or project that is not in compliance with those things would not be eligible to obtain credit for any greenhouse gas emissions reduction. That's a form or a level of protection to ensure there is not backsliding on these other important areas and that these other benefits are not foregone in order to achieve greenhouse gas emissions reductions. We didn't want to create that trade-off.

So all those things have to be in place. All that must be in compliance with the local requirements and regional, at the State or provincial, national. So that was the level of protection that was adopted or recommended, I should say. And that has been embodied in the protocols in California as well as in Quebec.

What was not done -- and Brian, as I think has correctly pointed this out, the bar was not raised. There was not additional protections added above and beyond what would already be required. I think that's where we ended up as a set of recommendations, that's when our protocols currently are designed as. That's what Quebec is as. And
recognizing really the critical attention that all this gets, all these offsets and the role they play in the programs, California, Quebec, and other jurisdictions really develop the protocols together now. So it's not as if Quebec will go off and develop a protocol and then come to us at the end of the process and say, "So how does this look?" And we would not do that to them either. We want to develop them jointly so that we can ensure that all of our requirements are met throughout the process and we don't have a surprise at the end. That's the process that we're using.

The same would be true if we or Quebec were interested in linking with another jurisdiction or accepting instruments from another jurisdiction. Before any of that would happen, we would be working together examining what that would mean, examining the level of integrity of the other system. And we would do it jointly. This is not where we go off and do something and then say to our partner, "Oh, here's a surprise. We'd like to do this." That would not work.

So in order to manage that process, this understanding or linking agreement that we've developed a complete draft of, which is part of the materials that have been available, describes how we would manage this relationship between California/Quebec as we have a linked
program. And part of that is not only ongoing consultation on these issues, but notice. So we have right in there that the critical step of ensuring that any considerations before they become formal and ready to be adopted, but just considerations, are shared and developed jointly many months in advance so we can respect our stakeholder process here and run it through comments here. They can respect their stakeholder process in Quebec, run it through their comments there so that we are all in agreement before we move together to do things.

So that's a little bit of a history.

CHAIRPERSON NICHOLS: That's helpful.

As a practical matter, how do you see this communication and coordination going on as we move forward to the fall when we will have to make a decision in terms of readiness to actually auction jointly and on into the future? I mean, who's talking to who, when, and how?

ASSISTANT EXECUTIVE OFFICER GIBBS: Yes. So I think there's two types and levels of communication. One is at the staff level that are actually working on the specific things, for example. The procedures for running a joint auction is very detailed. All the way down to the point of when each jurisdiction certifies that the auction requirements have been met, that's going to happen independently. But that would have to be reported
together so that we both agree we're ready to press the button and say, yes, the auction is certified. So that's that very nitty-gritty. And that's at the staff level. And that's already ongoing and has been ongoing for a number of years to bring us to the point where we are today that we have harmonized what we're doing. So there's some areas that we are continuing to work, like in the procedures for joint auction.

Then separately from the staff level, there's more of a management or policy level consultation committee, which the linking agreement specifies would be comprised of specific individuals who would regularly meet to discuss just the lay of the land, how things are going, any issues that have arisen, concerns that have come up. If staff are having any difficulties resolving differences, it would be brought up to this consultative committee who would then work those things out at that level.

CHAIRPERSON NICHOLS: And then just so that the Board understands the relationship here, we are members of a nonprofit corporation called WCI, Inc., which is actually the contract manager for the independent contractors who are developing the software for the joint auctions and the tracking systems and so forth. Can you describe a little bit about how that works as well?
ASSISTANT EXECUTIVE OFFICER GIBBS: Yes. So in order to support what we might call the infrastructure or systems to enable linked programs to work seamlessly and to avoid any security problems where you would have two different systems that are trying to talk to each other to create a security problems like they've had in the European program, the jurisdictions who have been working together and the Western Climate Initiative created Western Climate Initiative, Incorporated, which is an actual corporate organization funded solely by the jurisdictions to develop this common infrastructure, the principle pieces of which are the tracking system that you mention and the auction platform, which would support both the programs.

So the tracking system is already in place. It already supports the California program and the Quebec program. Right now, there is a wall in the system between the two programs that prevents them from transferring allowances. When we link, the wall would be taken down. The system is already in place.

Similarly, we've developed an auction platform that can support individual auctions and is now being refined so that could also support a joint auction, but it's the same platform. So right now, California is using it. Quebec just did a test of it for their stakeholders.
They're planning their first Quebec only auction using that platform. And then it will be put in the mode of joint auction, tested, and then be used for a joint auction.

So Western Climate Initiative, Inc., is the organization that has the contracts with the contractors developing these and provides oversight to those contracts, but does the work under the specifications, the requirements that our California regulation requires and that Quebec's regulation requires, which are essentially identical to ensure that those systems meet our needs and work for us.

CHAIRPERSON NICHOLS: I just wanted to pursue this a little bit because I want to make sure that Board members understand, occasionally, you see something in the press or an article somewhere that suggests that there is this shadowy entity out there, WCI or WCI, Inc., that's responsible for all of this linkage activity that's going on. And I want to be very clear and make sure that Board members feel like they have the knowledge and ability to get access at any time they want to to this information because it is something that we're doing clearly in a way that's meant to be as open and transparent as possible. The meetings of it are open to the public. There is going to be one coming up, I believe, May 8th.
ASSISTANT EXECUTIVE OFFICER GIBBS: There is a planned Board meeting open to the public on May 8th here in Sacramento. If you can't attend in person, attend by phone.

CHAIRPERSON NICHOLS: It will be conducted in both English and French, which will be a challenge for most of us who are mostly mono lingual.

ASSISTANT EXECUTIVE OFFICER GIBBS: The contracts that I mentioned that WCI links into are posted on the WCI, Inc., website, the bylaws, budget, minutes of the meetings. It's all there to see.

CHAIRPERSON NICHOLS: Okay. Other questions, comments from the Board before we move forward on this?

BOARD MEMBER DE LA TORRE: I just had a comment that I've discussed with staff and with the Chair. As we look at these offset protocols and we move forward, clearly we want to have as broad a range as possible in order to make sure that these auctions, the Cap and Trade Program in general are liquid, that there is -- that there are possibilities for both to engage. And I accept that and I think it's good policy.

However, being that we do represent a significantly larger entity than Quebec and that we are in the lead here in the United States and that we do have an obligation -- all of us have an obligation to the people
of California, as we move forward, we need to always keep in mind that we need the maximize the benefit of these offsets here in California. I think that that -- again not to the exclusion of other opportunities, but we need to always keep in mind that we need to maximize those possibilities here, to mitigate those greenhouse gas emissions here because that's what the people of California are expecting from us. So I just wanted to reiterate that.

CHAIRPERSON NICHOLS: I think that's an important point to keep that in front of us.

The program and one of the advantages, I guess it's considered to be one of the main advantages of a Cap and Trade Program is that it provides opportunities for those who aren't under the cap to participate in helping to reduce greenhouse gas emissions. And we have lots of those opportunities in California, and we'd like to see those kind of projects going forward. So that's a very good point.

Anybody else have any thoughts? Yes.

BOARD MEMBER SERNA: Thank you, Madam Chair.

Even though I'm the newest member on the Board and I haven't been around for some of the past stakeholder outreach efforts, I just want to echo what our Chair referenced earlier and one of the speakers said about all
the work that staff has done over past several months to really make sure that stakeholders have every opportunity to comment in writing and in person. As a county supervisor, you have lots of opportunity to see the public process at work, to engage those that have a stake in public policy. And this is really quite impressive, and I want to thank staff for all their hard work. Thank you.

CHAIRPERSON NICHOLS: Thank you. All right. At this point, I think we can declare the record closed then. And do we have a legal comment in terms of the CEQA compliance or anything else that we need to address at this point?

CHIEF COUNSEL PETER: Your Honor -- sorry. Sorry. I went back to my litigation mode.

(Laughter)

CHAIRPERSON NICHOLS: I thought maybe you had been talking to the Governor.

CHIEF COUNSEL PETER: We had a public statement of the findings with respect to the environmental issues that were raised that was published on our web page. Everything that was mentioned here was also covered in that, so there is nothing to add to that. I just wanted to make that reference that it was there as part of the record. It's been public and it addresses any comments.

CHAIRPERSON NICHOLS: Good. Thank you.
All right. Then without further ado, may I have a motion to approve the Resolution?

BOARD MEMBER SPERLING: I so move to approve the linkage -- the Resolution for the linkage with Quebec.

BOARD MEMBER BALMES: Second.

CHAIRPERSON NICHOLS: All right. All those in favor please say aye.

(Ayes)

CHAIRPERSON NICHOLS: Any opposed?

Any abstentions.

I know I speak on behalf of the entire Board when I say that we are proud of this accomplishment and looking forward to the next stages. So before I just adjourn this meeting, do we have any public -- just general public comment signed up for at this meeting? None.

CHIEF COUNSEL PETER: We're going to have a very short closed session.

CHAIRPERSON NICHOLS: So we will not adjourn the meeting at this time. We will recess to closed session, and then we'll come back informally to adjourn the meeting and announce any action we may have taken. Okay. Thank you very much everybody.

(Whereupon the Air Resources Board recessed into closed session at 10:23 a.m. and resumed open session at 10:59 a.m.)
CHAIRPERSON NICHOLS: It's now 11:00, and we've finished the executive session. I'm just here to report that no action was taken. We received briefings from our counsel on several ongoing matters in litigation, but we did not have to make any decisions. And so at this point, we will adjourn the meeting. Thank you very much.

(Whereupon the Air Resources Board adjourned at 10:59 a.m.)
CERTIFICATE OF REPORTER

I, TIFFANY C. KRAFT, a Certified Shorthand Reporter of the State of California, and Registered Professional Reporter, do hereby certify:

That I am a disinterested person herein; that the foregoing hearing was reported in shorthand by me, Tiffany C. Kraft, a Certified Shorthand Reporter of the State of California, and thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for any of the parties to said hearing nor in any way interested in the outcome of said hearing.

IN WITNESS WHEREOF, I have hereunto set my hand this 21st day of April, 2013.

______________________________
TIFFANY C. KRAFT, CSR, RPR
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