



Air Resources Board



Matthew Rodriguez
Secretary for
Environmental Protection

Mary D. Nichols, Chairman
1001 I Street • P.O. Box 2815
Sacramento, California 95812 • www.arb.ca.gov

Edmund G. Brown Jr.
Governor

February 22, 2013

Honorable Edmund G. Brown Jr.
Office of the Governor
State Capitol, First Floor
Sacramento, California 95814

Dear Governor Brown:

This letter requests that you consider and make four findings that are necessary before the Air Resources Board (ARB) can adopt a regulation that would link the greenhouse gas emissions trading programs developed in parallel by California and the Province of Québec. The Legislature required these findings last year in a budget trailer bill, Senate Bill 1018. I am making this request in response to direction from my Board.

In the Global Warming Solutions Act of 2006, the Legislature directed ARB to facilitate the development of integrated regional, national, and international greenhouse gas reduction programs. Indeed, climate change is a global problem that requires innovative national and international solutions. Linking California and Québec's programs will demonstrate the ability of two jurisdictions to effectively work together to develop and implement cost-effective regional greenhouse gas emission reduction programs. In addition, moving forward by linking the programs will provide a framework for additional partners to join, and demonstrate a workable template for urgently needed action. Thus, it is important and timely to demonstrate that linked programs offer a path forward that can include additional states and provinces.

There are also benefits that California should realize from linking. Linking with Québec—and in time other partners—is another important step to transform California's economy by driving innovation and investment. Due to the State's leadership on clean energy and energy efficiency, California businesses are positioned to benefit as other jurisdictions require the technology and expertise to develop and implement their respective climate programs.

I am pleased to report that the California and Québec program regulations include many identical features to ensure the efficacy of the emissions cap and to facilitate fair and equitable access to an efficient market for compliance instruments. ARB and Québec staff conducted extensive comparisons of the respective regulations and supporting programs to harmonize them in every respect needed to ensure the environmental

The energy challenge facing California is real. Every Californian needs to take immediate action to reduce energy consumption. For a list of simple ways you can reduce demand and cut your energy costs, see our website: <http://www.arb.ca.gov>.

California Environmental Protection Agency

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integrity and compatibility of the programs. Therefore, the programs will be fully harmonized based on the regulatory amendments adopted by ARB in June 2012, the currently proposed amendments for program linking, and the regulations finalized by Québec in December 2012.

Our analysis of the two programs in terms of the four required findings is set forth in the "Discussion of Findings Required by Government Code section 12894" that is part of the administrative record and available at the web site provided below as well as included as an enclosure to this letter:

<http://www.arb.ca.gov/regact/2012/capandtrade12/2nd15dayatta6.pdf>.

Based on our analysis, we believe that Québec's program is equivalent to California's, and in some ways more stringent. If linked, both programs will remain fully enforceable. Finally, linking the programs will not impose liability on California.

In support of the four findings, I am transmitting with this letter a table of contents which includes links to the administrative record we have developed over the past year in connection with linkage-related amendments to the existing Cap-and-Trade Regulation. The documents referenced in this table of contents are also attached to this letter. Although our rulemaking is not final, I am also enclosing a summary of and preliminary responses to comments that ARB has received to date. That document responds to questions regarding linkage, including questions relating to the appropriate time to link California's cap-and-trade program to that of another jurisdiction. I note that the comments submitted to ARB in response to our rulemaking documents do not raise concerns about any of the four areas upon which you must make findings pursuant to Senate Bill 1018.

Also attached is a discussion proposal for a linkage agreement between California and Québec. The purpose of this document is to define how California and Québec will continue to work together to ensure the two programs remain harmonized and are properly integrated. The Board will receive public comment on this document when it considers the linkage amendments. Following Board action, including any direction from the Board regarding the linkage agreement, ARB proposes to finalize the agreement with Québec. Under Québec law, an agreement must be approved by the Québec National Assembly prior to linking becoming effective.

ARB needs to complete its rulemaking in the time limits provided by the Administrative Procedure Act. Thus, the Board is scheduled to consider the linkage amendments at its March 21, 2013 hearing. However, providing your findings affirm our assessment, the Board's action on the linkage amendments will not trigger linkage with Québec, but

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rather represent a key step allowing for linking the programs in the future. We, along with Quebec, are committed to ensuring that all of the necessary systems have been tested and are ready prior to holding any joint auction. We request that you complete your assessment and issue findings. If you have any questions, please contact me at (916) 445-4383 or jgoldste@arb.ca.gov.

Sincerely,

/s/

James N. Goldstene
Executive Officer

Enclosures

cc: Mary D. Nichols
Chairman

Honorable Board Members