

First Climate LLC ■ 333 Pine Street, 3rd Floor ■ San Francisco, CA 94104

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Ms. Brienne Aguila
California Air Resources Board
1001 I Street
Sacramento, CA 95814

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Re: Reviewing and Approving Offsets in a Cap-and-Trade Program

Dear Ms. Aguila,

First Climate appreciates the opportunity to offer the following comments to the California Air Resources Board (CARB) regarding reviewing and approving offsets in a cap-and-trade program. As a leading carbon asset management company with over 10 years of experience operating in both compliance and voluntary markets internationally, we appreciate the opportunity to contribute to this important discussion. In response to the staff preliminary thinking outlined in the May 21st public meeting, we offer the following comments and questions:

Reviewing and Adopting Offset Protocols

We agree with CARB's preliminary staff thinking and applaud the plan to follow a hybrid protocol approval process that focuses on standardized methodologies while providing a pathway for approving new, innovative methodologies. We feel that this type of approach would ensure completion of the due diligence process that a project by project approach necessitates while incentivizing environmental innovation and enabling project developers to approach the Board with new, quality projects. The ability to submit future methodologies as the cap-and-trade program evolves is key to ensuring that our domestic offset supply meets market demand and will enable CARB to increase emission reduction potential nationwide.

We appreciate CARB's intention to avoid "methodology shopping" by ensuring that new methodologies presented, once approved, are incorporated into a standardized approach. This will lead to increased efficiency in the protocol approval process as a whole and will avoid the pitfalls associated with approving numerous methodologies for one project type. We also support the prioritization of valuable co-benefits in offset project type selection and we encourage further specification regarding these policy goals to enable project developers to rise to the challenge. AB 32 requires CARB to "consider the overall societal benefits, including reductions in other air pollutants, diversification of energy sources, and other benefits to the economy, environment and public health" (HSC 38562(b)(6)). Further outlining and defining these specific goals will enable the creation of tangible quantification methods as appropriate to ensure that co-benefits are realized. However, we also caution against eliminating the potential to realize certain intangible benefits by creating a potentially impractical co-benefit quantification process.

Project types

The list of eligible project types that CARB intends to develop is essential to a liquid and robust domestic offset market and should be prioritized to provide clarity and guidance in the near term. As you know, high quality offset projects require much upfront planning and due diligence in order to realize offset commercialization. Co-benefits derived from premium offset projects can contribute significantly to California's successful transition to a low-carbon economy by improving local air quality and addressing pertinent environmental justice issues.

In order to meet demand and enable offsets to provide essential cost containment benefits and valuable co-benefits to society as a whole, we urge CARB to speed the development of this list and offer the following project type recommendations based on the outlined prioritization criteria:

- **Coal Mine Methane:** While not widely applicable in California, Coal Mine Methane (CMM) mitigation offers perhaps the most significant supply of carbon credits in the U.S. Many western states, such as Colorado, New Mexico, Utah and Montana, offer considerable potential for this project type. Although it is conceivable that certain types of CMM projects will be regulated through enhanced performance standards administered by the EPA, CARB should consider protocols for both early-action mitigation measures (where crediting ceases once regulation comes into force) and project activities deemed to be in excess of the existing performance standards.
- **Biomass Fuel Switching:** A popular and readily deployable technology throughout California, biomass fuel switching projects could generate significant carbon credits within the state. Because biomass fuel switching projects may be grid-connected, CARB will need to take steps to ensure that there is no double counting of carbon credits and allowances from capped entities.
- **Industrial Waste Water:** While a manure management protocol has already been approved and is in use for a number of projects, we would like to see CARB adopt a similar protocol that focuses on industrial and agro-industrial wastewater-to-energy projects. We suggest CARB consider the CDM methodology AM0022 as guidance for this sector.
- **Nitrous Oxide (N₂O) Abatement from Soil Amendments:** The lion's share of GHG emissions from agriculture comes from N₂O volatilization during fertilizer application. California is a leader in both the agricultural industry as well as sustainable agriculture and CARB should take this opportunity to encourage innovative thinking in this novel sector. No methodology for quantifying emissions currently exists but the potential reduction in GHG emissions from the state's agricultural footprint through reduced N₂O emissions is significant and worth pursuing.

Thank you for considering our feedback, we look forward to continuing to participate in this important dialogue and encourage you to contact us with any questions.

Sincerely,

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