

November 18, 2019

FACTS ABOUT

Livestock Methane Compliance Offset Credits Under Investigation

This document provides additional information regarding the livestock methane compliance offset credits investigation pursuant to section 95985 of the Cap-and-Trade Regulation (Regulation).

Background

The California Air Resources Board (CARB) is investigating compliance offset credits issued for livestock methane destruction. Offsets issued to Scenic View Dairy in Holland, Michigan may have been generated while the facility was not in compliance with permitting requirements of the Michigan Department of Environment, Great Lakes, and Energy health and safety rules. Offset project activity and implementation of the offset project must be in accordance with all local, state, or national environmental and health and safety laws and regulations that apply based on the offset project location and that directly apply to the offset project during the Reporting Period for which compliance offset credits are issued. If these conditions are not met, CARB may invalidate compliance offset credits under section 95985(c)(2) of the Cap-and-Trade Regulation (Regulation). Despite the project's potential non-compliance with health and safety rules, CARB believes the greenhouse gas (GHG) emissions reductions represented by the offsets are real, quantified, and verified reductions.

Which compliance offset credits are under investigation?

CARB has made an initial determination that compliance offset credits issued for two reporting periods for livestock methane destruction events that took place at the Scenic View Dairy project may be subject to invalidation pursuant to section 95985. The ARB offset credit issuance website identifies the reporting periods under investigation as "Under Review." The information is available at:

http://www.arb.ca.gov/cc/capandtrade/offsets/issuance/arboc_issuance.xlsx

At this time, CARB is making no judgment about the validity of the compliance offset credits under investigation. The offsets remain valid until the investigation is complete and CARB's Executive Officer makes a final determination.

What happens to the compliance offset credits during the investigation?

Per section 95985(d) of the Regulation, CARB must block transfers of the compliance offset credits under investigation until a final determination of invalidation is made. In this case, transfers of the compliance offset credits issued for Reporting Period C (CAL5040-C) of the Scenic View Dairy project have not been blocked because the

affected compliance offset credits had already been surrendered to meet a compliance obligation prior to CARB initiating this investigation. Transfers of the compliance offset credits issued for Reporting Period D (CAL5040-D) of the Scenic View Dairy project have been blocked until a final determination is made.

Pursuant to section 95985(h) of the Regulation, if the Executive Officer makes a final determination to invalidate the offset credits, any entity that has retired the invalid compliance offset credits is required to replace them with a valid compliance instrument within six months of the determination.

How were affected parties notified of the investigation?

All active Compliance Instrument Tracking System Service (CITSS) account representatives for the offset project operator and all parties that held any compliance offset credits under review were notified of the compliance offset credit investigation on November 18, 2019. This notice served as the official notification of the compliance offset credit investigation under section 95985(f) of the Regulation. This notification detailed the process by which CARB would block the transfer of these compliance offset credits and outlined the investigation timeline.

What is the timeline for the investigation?

From November 18, 2019, all affected parties have 25 calendar days to provide additional information to assist CARB in the investigation. CARB may also request any additional information that may aid in the investigation. Once all information has been submitted, CARB's Executive Officer has 30 calendar days from the day that all the information is received to make a final determination whether to invalidate any compliance offset credits under investigation.

How will CARB keep affected parties aware of developments in the investigation?

CARB will not comment on the investigation until the final determination has been made. All market participants will be notified of the final determination in a manner that ensures everyone receives the information at the same time.

Does the investigation impact other compliance offset credits generated by livestock methane destruction projects?

Only the compliance offset credits issued for Reporting Period C (CAL5040-C) and Reporting Period D (CAL5040-D) of the Scenic View Dairy project are under investigation. All compliance offset credits recognized in the Cap-and-Trade Program are subject to rigorous oversight and verification. At this time, there is no additional investigation of compliance offset credits for other offset projects or protocols.

What happens if the compliance offset credits under investigation are invalidated?

All affected parties will be notified and the compliance offset credits under investigation will be removed permanently from CITSS. These compliance offset credits will no longer be valid and cannot be transferred to any other entity or used for compliance.

What happens if the compliance offset credits under investigation are found to be

valid?

All affected parties will be notified and the compliance offset credits under investigation will be unblocked in the CITSS accounts of the affected parties. The compliance offset credits can then be transferred and used for compliance in accordance with section 95956 of the Regulation.

Is CARB issuing new compliance offset credits for livestock methane projects during the investigation?

CARB does not plan to block the issuance of any new compliance offset credits associated with destruction events at the Scenic View Dairy. This investigation does not affect any other projects.

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