



April 18, 2008

The Climate Trust
Comments to the California Air Resources Board on the
Integration of Greenhouse Gas Offsets into AB 32

Thank you for providing The Climate Trust with the opportunity to submit comments to the California Air Resources Board (ARB) regarding the integration of greenhouse gas offsets into California's climate change mitigation strategy under AB 32. We commend California for its pioneering lead in the establishment of the nation's most ambitious climate change mitigation program.

The Climate Trust is a non-profit organization whose mission is to promote climate change solutions by providing high-quality greenhouse gas offset projects and advancing sound offset policy. The Climate Trust was created in response to the United States' first regulation of greenhouse gases under the Oregon Carbon Dioxide Standard. The Climate Trust solicits, negotiates, and contracts to purchase offsets on behalf of its funders, including regulated power plants, businesses and individuals. Since its founding in 1997, The Climate Trust has directed \$8.8 million in funding into 16 greenhouse gas offset projects that are expected to offset close to 2.6 million metric tons of carbon dioxide.

Introduction

In addition to the comments submitted by the Offset Quality Initiative, The Climate Trust would like to submit additional comments in its individual organizational capacity. These comments are solely the position of The Climate Trust and are not reflective of the positions of the OQI as a whole. These comments address certain design questions presented by the California Air Resources Board (ARB) for stakeholder review and comment as set forth in the AB32 Technical Stakeholder Working Group Meeting, and include:

- Offsets defined
- The role of an offset program in California
- Project approval and quantification
- Geographic eligibility
- Trading system linkage
- Quantitative limits on offsets
- Discounting

Offsets Defined

The Climate Trust suggests that the ARB reconsider its definition of an offset. The current definition of "an offset is an emissions reduction achieved by an entity, beyond

what otherwise would have happened because of regulation, common practice, or otherwise expected behavior” is not as clear as it could be. Instead, we offer the following alternative definition that we believe more accurately describes what an offset is, without involving controversial definitions of additionality as well. We propose that ARB use the following definition:

“A greenhouse gas offset is a reduction or removal of greenhouse gases from the atmosphere due to a specific project activity that is used to compensate for emissions occurring elsewhere.”

The Role of an Offset Program in California

The Climate Trust believes that offsets have an important and valuable role to play in regional, national and international greenhouse gas reduction efforts and applauds California in considering an offset mechanism under AB 32. Oregon’s experience with greenhouse offsets under its pioneering Carbon Dioxide Standard illustrates that offsets are a workable and effective means of achieving lower cost emissions reductions in a regulated system.

There are a number of short term benefits to including offsets in a regulatory cap and trade system that have been well discussed. These include lessening the price impact of mandatory emissions reductions, providing a bridge while lower emissions technologies are developed and deployed, capturing emissions reductions in sectors not covered by the emissions cap and providing flexibility to capped entities in meeting their emissions reduction obligations. The Climate Trust believes that an adaptable offset framework will play an important role in both the short and long terms in assisting California and the West meet its emission reduction goals in the most cost-effective and efficient manner.

Offset Project Types and Protocols

Striking the appropriate balance between standardization and flexibility when developing qualification and quantification methodologies for offset project types is a challenging, though attainable, task. Most methodologies in use today provide standardized guidance for determining the eligibility of a specific project for use under the system (additionality, start date, etc.). Additionally, some methodologies provide project-type specific, standardized guidance for quantifying the emissions reductions expected from a given project activity.

The Climate Trust has a standardized, publicly accessible assessment protocol for determining the additionality of a potential offset project. To be considered additional by The Climate Trust, a project proponent must demonstrate that the project activity: 1) was not required by law, 2) faced at least one barrier to its implementation (these barriers can be financial, technological, or institutional), and 3) was not common practice in its sector or industry.¹ In addition, only new projects are allowed under the Oregon Carbon Dioxide Standard, which means that The Climate Trust does not fund any projects that have occurred in the past. The Climate Trust develops project-specific quantification methodologies for each project in its portfolio.

¹ The Climate Trust’s additionality determination document can be accessed here: http://www.climatetrust.org/about_us_press.php

We believe that California would be best served by defining a clear process by which an offset mechanism could be developed by the time regulation under AB 32 takes effect. A comprehensive offset framework could be approached in a three step process:

1. California could identify a list of initial project types and sectors for inclusion in the early years of the program. This will send important market signals to project developers and other participants and will spur early action in the identified sectors. It will also provide assurance to member states and other stakeholders regarding the scope of an offset program.
2. A centralized entity could be tasked with the development of qualification and quantification assessment methodologies for the identified project types and sectors for use in the program on a pre-determined timeline. These project methodologies could be vetted through an independent panel of experts, and have a stakeholder comment and review period.

There are several ways these methodologies and protocols could be developed:

- a. Through the adoption of existing methodologies, such as those from the Clean Development Mechanism, the California Climate Action Registry, The Regional Greenhouse Gas Initiative, The Climate Trust, Environmental Resources Trust, EPA Climate leaders, and the Voluntary Carbon Standard;
 - b. Through the development of hybrid methodologies drawing on the groundwork that has already been laid in these systems and programs; or,
 - c. Through the development from scratch for any project type that does not have an existing methodology or protocol that meets the requirements of the California system.
3. The establishment of an ongoing process for the addition of new project types and methodology development that would be administered by the designated administration agency.

This approach would allow the California to retain a high level of control over the types and sectors that are included in the offset program, while allowing the program to scale up quickly and in a public and transparent fashion. Moreover, it will send early market signals to project developers eager to begin delivering emissions reductions from uncapped sectors and will provide a means for the offset program to grow over time.

Geographic Eligibility

The Climate Trust strongly discourages limiting the eligibility of offset projects by geographic source. Greenhouse gases are global pollutants, thus, the location of an emissions reduction is immaterial to its impact on atmospheric concentrations of greenhouse gases. While we recognize that there are important positive environmental and economic externalities associated with the implementation of offset projects within California, we believe that there are compelling geo-political and economic reasons for allowing offsets from a broad geographic scope.

We believe that by limiting the geographic scope of offsets, regulators could significantly decrease the available supply of offsets, thereby driving up their cost; particularly in the early years of California's program. Moreover, there are currently limited numbers of offsets available from existing offset quantification programs active in the U.S. such as CCAR, The Gold Standard and VCS. While this should change over time as greater certainty emerges regarding the shape and structure of California's and other regional markets, the potential exists for a serious supply deficit in the early years of the program. Additionally, utilizing the more mature and robust frameworks already established at the international level through the Kyoto Protocol will greatly facilitate the integration of offsets into the California system when they are projected to be needed most, in the early years of the program.

Second, as more sectors of the economy are capped in the U.S., there will be fewer and fewer eligible sources of offsets over time from within the capped economy. If offsets are only allowed from California and the pool of available credits shrinks over time, the economic benefits of integrating offsets into the California framework will be limited; particularly in light of the fact that so many other environmental regulations exist in California that would inhibit regulated sectors from generating offset credits.

Third, by allowing offsets from a broad geographic scope, California can minimize the costs of meeting its ambitious reduction goals while achieving the greatest environmental benefit. California currently has a relatively efficient economy, which means that many of the lowest cost reduction opportunities have already been taken advantage of. California has the fourth lowest emissions per capita in the United States² and the fifth lowest emissions per gross state product (in 2001). With offsets playing an increasing role in greenhouse gas regulation at the regional and international levels, and thus facing increasing demand, it is anticipated that the price of offsets will continue to rise. Sourcing offsets from all locations and un-capped sectors of the economy allows for the most cost-effective greenhouse gas reduction opportunities to be utilized, thereby lowering the cost of compliance and achievement of the State's environmental goals.

Finally, The Climate Trust believes that in the long term, most eligible offset project types will be located in uncapped economies, predominantly in the developing world. We believe that by only allowing offset projects from within California, or within the U.S., California will miss out on the true advantage of a cap-and-trade offset system: the ability to achieve emissions reductions from the lowest-cost options from around the globe.

Trading System Linkage

The Climate Trust encourages California to consider allowing the use of tradable units (both allowances and offsets) from other government regulated greenhouse gas emissions trading schemes. Linking to other greenhouse gas trading systems is one of the most cost-effective means of achieving emissions reduction goals at a global level. However, it is important to ensure that linked emissions reduction systems reduction goals and emissions caps are coordinated to ensure that trading between systems does not weaken

² <http://www.climatechange.ca.gov/policies/images/fig27.jpg>

the environmental integrity of the system nor compromise the achievement of real, verifiable emissions reduction targets.

Moreover, we strongly encourage California to develop its system to be as compatible as possible with the emerging Western Climate Initiative regime. Coordinating the greenhouse gas reduction efforts under AB 32 and those happening at a regional level will be of paramount importance in achieving collective reduction goals and strengthening a regional approach. Linking California's offset program with more abundant, and presumably less expensive, greenhouse gas offsets available in the region, and potentially at the national and international levels through other approved regimes, will have significant consequences for the economic impacts of the steep reductions California needs to make to meet its emission reduction goals under AB 32.

Quantitative Limits

From a strictly environmental and economic perspective there is no rationale for limiting emission reduction credits eligible to meet emissions reduction compliance obligations, as long as those credits are issued from qualified sources of emissions reductions. The Climate Trust recognizes the concerns regarding the incentivization of innovation and technology transformation in capped sectors. However, the establishment of rigorous and conservative quality criteria for greenhouse gas reduction mechanisms under climate change mitigation policy should serve as a sufficient limiter of greenhouse gas offsets available to regulated entities. Stringent offset quality criteria, particularly robust additionality and quantification criteria, will serve to screen out projects that are not resulting in above business as usual reductions, and should serve as a natural limiter on the number and type of compliance eligible offsets credits available in the market.

Discounting

The Climate Trust strongly discourages the use of a discount factor when considering the incorporation of offsets under regulation. If the appropriate quality standards are in place, a ton of greenhouse gases reduced, regardless of its original source, should represent a ton of greenhouse gases reduced.

Conclusion

The Climate Trust is eager to share Oregon's success and "lessons learned" from its groundbreaking regulation of carbon dioxide with California policymakers. We stand ready to contribute our practical experience in offset program implementation and success in assisting regulated entities procure and retire real, verifiable and additional greenhouse gas offsets to the State of California.