

California's Compliance Offset Program: Early Action Process

California Air Resources Board
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April 5, 2012

Agenda

- Early action criteria
- Who may participate
- Process overview
- Regulatory verification requirements
- Issuance of ARB offset credits
- Next steps

What is Early Action?

- Early action offset credits are voluntary offset credits that may be issued ARB offset credits if they meet regulatory criteria
- Offset credits issued by voluntary programs may not directly be used for compliance and may not be traded on ARB's tracking system

Early Action Criteria (1)

- The early action offset credits must:
 - Be issued by an approved Early Action Offset Program
 - Occur between January 1, 2005 and December 31, 2014
 - Undergo regulatory verification
 - Result from an early action offset project listed by January 1, 2014 with an Early Action Offset Program
 - Result from an early action offset project located in the United States
 - Result from a project developed using a protocol approved by the Board and listed in the regulation

Early Action Criteria (2)

- Board approved protocols eligible for early action:
 - Climate Action Reserve U.S. Livestock Project Protocol versions 1.0 through 3.0
 - Climate Action Reserve Urban Forest Project Protocol versions 1.0 through 1.1
 - Climate Action Reserve U.S. Ozone Depleting Substances Project Protocol version 1.0
 - Climate Action Reserve Forest Project Protocol versions 2.1 and 3.0 through 3.2
- ARB could adopt other protocols through a new rulemaking process

Early Action Offset Programs

- An Early Action Offset Program may be approved by ARB to perform specific administrative functions of the offset program, with ARB oversight
- Early Action Offset Programs may be approved if they meet the requirements of the regulation
- Most eligible programs will be existing voluntary registries that issue credits for projects developed using the early action protocols

Who May Seek Issuance of ARB Offset Credits?

Forest and urban forest projects:

- If the project DOES NOT transition to a Compliance Offset Protocol (COP) only the Offset Project Operator (OPO) or Authorized Project Designee (APD) may seek issuance of ARB offset credits
 - The holders of credits from these project may NOT seek issuance independently
- If the project DOES transition to a COP the holders of the credits may seek issuance of ARB offset credits, but only if the OPO or APD do not seek issuance at the project level

ODS and livestock projects:

- The OPO and APD may seek issuance of ARB offset credits, the holders may only seek issuance of ARB offset credits if the OPO or APD do not

Requirements for Parties Seeking ARB Offset Credits

- The parties seeking issuance of ARB offset credits must:
 - Register with ARB in Compliance Instrument Tracking System Service (CITSS)
 - List the early action offset project with ARB
 - Submit applicable attestation forms to ARB
- If the OPO or APD does not seek issuance of ARB offset credits at the project level ARB encourages the holders of the offset credits to work with the Early Action Offset Program to streamline the process for submitting the required information and facilitating a single regulatory verification

How Do Parties List the Offset Project with ARB?

- ARB will be providing forms for stakeholders to submit the required information to list offset projects
- OPOs and APDs will need to register with CITSS for an account
 - No direct transfer of credits from the Early Action Offset Program system to CITSS

General Requirements for Regulatory Verification

- Early action offset credits must meet the requirements of regulatory verification to be issued ARB offset credits
- All projects must be verified by an ARB-accredited verification body
 - The ARB verification body must be different than the one that did any original verifications under the Early Action Offset Program
- ARB working with contractor to develop training for offset verifiers

Requirements for Desk Reviews (1)

- Each qualifying verification report must undergo a desk review by an ARB-accredited verification body
 - All qualifying verification reports for a single offset project may be grouped together into one desk review and do not need to be reviewed individually
- ARB accredited verifier will review the verification report to ensure it is thorough and accurate to support the positive verification statement that was issued in the Early Action Offset Program

Requirements for Desk Reviews (2)

- A desk review must include the following:
 - Review of all the original documentation submitted to the Early Action Offset Program
 - Review of the data checks in original verification report
- If the ARB accredited verifier concludes, after its review of the original documentation, with reasonable assurance that a positive verification statement should have been issued the ARB verifier must make an attestation to ARB regarding their findings from the desk review
 - The verifier will not issue another verification statement

Requirements for Desk Reviews (3)

- If a verification report, or multiple reports, do not pass the desk review the ARB accredited verifier must prepare a report for ARB and explain the reasons for the conclusion to ARB for review
- If ARB agrees with the findings, the OPO or APD may opt to conduct full offset verification services on those verification reports that did not pass the desk review
- It is optional for OPO or APD to have full verification to see if they will be issued a positive verification statement, or they can stop after the desk review and not get ARB offset credits

Requirements for Conflict of Interest

- The verification body will be subject to the conflict of interest requirements in section 95979
- Conflict of interest must be assessed against the following parties:
 - The OPO and APD, if applicable
 - Any party that holds more than 30 percent of the early action offset credits issued to the offset project under each verification report

Conflict of Interest: Example

- 10,000 offset credits were issued under a verification report
 - Party A holds 2,500 offset credits
 - Party B holds 3,700 offset credits
 - Party C holds 3,800 offset credits
- Conflict of interest must be assessed only against those parties that hold more than 30 percent of the offset credits under a verification report
- In this example, conflict of interest must only be assessed against Party B and Party C as they hold 37 and 38 percent respectively

Requirements for Issuance of ARB Offset Credits

- ARB will issue ARB offset credits for the early action offset credits if:
 - All general early action criteria are met
 - All regulatory verification requirements are met
 - All applicable attestations are submitted to ARB
- ARB offset credits will not be issued for early action offset credits that have been retired or canceled or used to meet a surrender obligation, a voluntary commitment, or any GHG mitigation requirements in any voluntary or regulatory system

Issuance of ARB Offset Credits for Non-forest Projects

- ARB offset credits will be issued on a one-to-one basis for projects developed under the following early action protocols:
 - Climate Action Reserve Urban Forest Project Protocol versions 1.0 through 1.1
 - Climate Action Reserve U.S. Ozone Depleting Substances Project Protocol version 1.0
 - Climate Action Reserve U.S. Livestock Project Protocol versions 1.0 through 3.0

Issuance of ARB Offset Credits for Forest Projects (1)

- All forest early action projects must contribute ARB offset credits to the Forest Buffer Account for each verification report
 - The contribution is based on the project-specific risk rating calculation in ARB's COP for U.S. Forest Projects applied to each verification report
- For projects developed under Climate Action Reserve Forest Project Protocol version 2.1 and versions 3.0 through 3.2:
 - ARB offset credits will be issued on a one-to-one basis, however, ARB may deduct offsets if the offset project did not contribute enough to the Early Action Offset Program buffer account

Issuance of ARB Offset Credits for Forest Projects (2)

- If the OPO or APD is seeking issuance of ARB offset credits, ARB will determine how many ARB offset credits will be issued at the project level, and for each verification report based on three main factors:
 - The number of ARB offset credits that meet the requirements of the regulation and that the OPO or APD is seeking issuance of
 - The number of qualifying early action offset credits transferred for the verification report year from the Early Action Offset Program's forest buffer pool
 - The project-specific risk rating calculation in ARB's COP for U.S. Forest Projects

Issuance of ARB Offset Credits for Forest Projects (3)

- If the Early Action Offset Program's buffer pool transfer is enough to cover ARB's Forest Buffer Account requirement – credits will be issued on a one-to-one basis and credits will not be deducted from the total
- If the buffer pool transfer from the Early Action Offset Program is not enough to cover the amount required by ARB's COP, ARB will issue ARB offset credits minus the amount needed to cover ARB's Forest Buffer requirement

Issuance of ARB Offset Credits for Forest Projects (4)

- If a holder is seeking issuance of ARB offset credits ARB will first look at whether there were enough qualifying offsets transferred from the Early Action Offset Program's buffer pool for the entire project
- If enough offsets were transferred from the Early Action Offset Program's buffer pool, ARB will issue ARB offset credits to the individual holder on a one-to-one basis

Issuance of ARB Offset Credits for Forest Projects (5)

- If the buffer pool transfer from the Early Action Offset Program is not enough to cover the amount required by ARB's COP, ARB will issue ARB offset credits to the holder minus the amount needed to cover ARB's Forest Buffer requirement

Issuance of ARB Offset Credits for Forest Projects (6)

- Projects developed under Climate Action Reserve Forest Project Protocol version 2.1 and transition to ARB's COP U.S. Forest Projects may qualify to be issued additional ARB offset credits
 - To qualify under these optional provisions the OPO or APD must recalculate the project baseline based on the requirements in ARB's COP U.S. Forest Projects
 - If under ARB's baseline, the project would have been issued more credits than under CAR's protocol, the OPO or APD may be issued additional credits in this incremental amount
 - If the project was issued more credits under CAR than they would be under ARB's baseline the OPO or APD will not be issued any additional credits and they will also not lose any credits they were already issued

Process for Issuance of ARB Offset Credits

- Once ARB has issued ARB offset credits it will notify the Early Action Offset Program and the OPO, APD, and holders of the original early action offset credits
- The Early Action Offset Program must remove the original early action offset credits within 10 calendar days of notification by ARB

Transition of Early Action Projects to Compliance (1)

- Early action projects must transition to Compliance Offset Protocols by February 18, 2015
 - GHG reductions or removal enhancements achieved under early action protocols must be verified by September 30, 2015 to be issued ARB offset credits
 - This applies to both projects that transition to COPs and those that remain under voluntary protocols
 - When an offset project transitions it must list the offset project with an Offset Project Registry (OPR) according to the requirements of section 95975
 - Once an offset project transitions to a COP it will begin a new crediting period

Transition of Early Action Projects to Compliance (2)

- Early action projects developed under CAR's Forest Project Protocol version 2.1 must recalculate its baseline according to the provisions in ARB's COP U.S. Forest Projects at the time of transition
 - The new project baseline will remain valid for the duration of the project life
 - In the first Reporting Period under ARB's COP U.S. Forest Projects the OPO or APD will only be issued ARB offset credits for the increased carbon stocks beyond what was already issued early action offset credits in the last year before the project transitioned to ARB's COP U.S. Forest Projects

Transition of Early Action Projects to Compliance (3)

- Early action projects developed under CAR's Forest Project Protocol versions 3.0 through 3.2 must subtract any carbon stocks from any optional pools that are excluded in ARB's COP U.S. Forest Projects
 - Decreases will not constitute a reversal

Invalidation Provisions for Early Action

- All ARB offset credits are subject to the same invalidation requirements, including those issued for early action
- The statute of limitations is 8 years, unless the requirements are met for shortening the timeframe to 3 years
 - For ODS projects the same Offset Project Data Report must be re-verified by a different verification body within 3 years
 - For all other project types, a subsequent Offset Project Data Report must be verified by a different verification body within 3 years
- The invalidation timeframe begins with the date that ARB offset credits are issued

When Can I Implement a Compliance Offset Project?

- NOW
 - Only requires one verification step
- Four compliance offset protocols are adopted
- OPOs and APDs don't need to wait for registry approval or verifier accreditation before implementing a project

Next Steps

- Offset verifier and Offset Project Registry staff training
 - ARB has officially awarded the training development and delivery contract to Future Perfect
 - Plan to offer training in late Spring or early Summer
 - Multiple day training with exams
 - Offset verifiers will not have to take training for all project types
 - Registry staff to take additional training module on registry services
- Release of regulation guidance document
- Development of offset program related forms

Additional Information

Cap-and-Trade Program

<http://www.arb.ca.gov/cc/capandtrade/capandtrade.htm>

Join the cap-and-trade listserve at:

[http://www.arb.ca.gov/listserv/listserv_ind.php?listname=c
apandtrade](http://www.arb.ca.gov/listserv/listserv_ind.php?listname=c
apandtrade)

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Questions