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Ms. Brienne Aguila
California Air Resources Board
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Re: Criteria for Compliance 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 criteria for compliance offsets in a cap-and-trade program. We appreciate CARB's efforts to gather public comment on this topic and offer the following comments and recommendations based on our extensive experience in international and US carbon markets.

Your presentation at the April 28th public meeting gave an excellent overview of the many complexities associated with establishing various criteria for compliance offsets under a California cap-and-trade program. As outlined, AB 32 requires that any reduction of greenhouse gas (GHG) emissions used for compliance purposes must be real, permanent, quantifiable, verifiable, enforceable and additional. First Climate agrees that each of these criteria are critical to establishing offset use as an effective and robust tool to help California businesses meet aggressive, near term emission reduction targets cost effectively.

As a leading carbon asset management company with over 10 years of experience operating in both compliance and voluntary markets internationally, we would like to suggest the following recommendations based on the proposed criteria for offset additionality and permanence.

- Permanence:

We agree with CARB's second suggested approach to the issue whereby a buffer reserve is created and supplied by projects with a calculated risk of reversal, to be used to balance any unintentional reversals.

- Additionality:

We agree with CARB's preliminary staff thinking that favors a hybrid approach to additionality if this approach is focused on standardized assessments for offset sectors but also includes project-specific additionality tests as appropriate. These project-specific additionality tests should be applied to alleviate limitations that an additionality assessment applied exclusively to targeted sectors would create in terms of project types and technology options. Therefore, we recommend that CARB adopt an additionality test that can be applied to specific project activities outside of the sectors employing a sector-specific additional screen. This dual approach would simultaneously incentivize environmental innovation and enable the development of new and effective emission reduction project activities throughout the economy while paving the way for efficient generation of carbon credits in certain sectors of the economy. We also agree with this hybrid approach regarding the establishment of baselines and would recommend that ARB retain the flexibility to revise project baselines from existing standardized methodologies when presented with sufficient justification from scientific evidence.

More specifically, we would like to suggest that financial additionality tests do not render ineligible projects that receive government grants, rebates, tax credits or other subsidies as a partial means of initial funding. This type of funding will greatly enhance California's ability to invest in high quality domestic project activities during the nascent days of the "green economy." As you know, the extensive growth that the wind and solar sectors have enjoyed over the past few years has largely been driven by the availability of federal tax incentives. Eliminating these funding sources will, conversely, greatly diminish the ability of project developers to move quickly to get domestic emission reduction projects online to meet demand. These funding sources are provided in order to stimulate environmental innovation; however, without the ability to realize the value of the emission reductions that these projects will generate throughout the project lifetime, project developers and investors will not be able to secure the necessary initial investment to deliver a productive return on investment for their efforts. Therefore, the full emission reduction potential created by these funding opportunities will not be realized if this type of financial support renders them ineligible to create compliance grade offsets.

Both President Obama and the congress have gone to great lengths to enhance the commercial viability of alternative energy and emission reduction project opportunities, while moving aggressively to pass a comprehensive federal cap and trade bill. Surely it

was not their intention to see projects aided by federal and state monies excluded from a domestic emissions trading scheme. We propose, instead, that alternative project-specific additionality tests, such as the CDM's Barrier Assessment as well as the existing sector-specific Additionality screens be applied to projects that receive some portion of their initial funding through government resources.

With regard to addressing the potential of future regulations rendering certain project-types non-additional, we recommend that the project would cease to be additional on the date the new regulation enters into force, rather than when the regulation is passed in order to lessen the negative impact and uncertainty that project developers will face when presented with the potential for this type of regulatory modification.

- Defining a compliance offset:

We agree that direct emission reductions are preferable as they are easier to monitor and quantify. We also believe, however, that offsets generated by project activities that meet the eligibility criteria of real, verifiable, permanent and additional should be eligible for trading purposes provided that they can demonstrate the emission reductions are not double counted elsewhere in a trading scheme. We hope that the advent of AB32 will encourage novel and innovative emission reduction project activities; in that vein, we discourage the outright ineligibility of indirect emissions offset projects and suggest instead a careful review process to ensure the avoidance of double counting.

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,

Aleka Seville
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