

June 19, 2009



VIA E-MAIL: ccworkshops@arb.ca.gov
Brieanne Aguila
Offsets and Cap and Trade Project Manager
California Air Resources Board
1001 I Street
Sacramento, CA 95812

Re: Criteria for Compliance Offsets in a Cap-and-Trade Program

Dear Ms. Aguila,

On behalf of the American Lung Association in California, I am writing to thank you for the opportunity to comment on the development of criteria for compliance offsets within the AB 32 cap and trade program. Our recommendations on offset criteria support our broader concern that CARB must carefully control the use of offsets in order to maximize emission reduction and public health benefits within California while promoting the development of advanced technologies and a greener economy.

The state's policy on offsets has significant implications for air quality progress in California. Californians are subject to some of the worst air quality in the nation that results in public health impacts ranging from hospitalizations and emergency room visits for respiratory and cardiac illnesses to premature deaths. Allowing pollution sources to achieve program compliance by purchasing offsets rather than by directly addressing their own emissions threatens to perpetuate unhealthy pollution levels in California communities.

The American Lung Association in California believes that CARB must significantly limit the amount of offsets that can be used toward a source's compliance obligation, prioritize offset projects that are located within California, promote projects that benefit highly impacted communities, establish strong criteria to ensure that offsets are real, quantifiable, permanent, verifiable, enforceable and additional, and establish strong enforcement programs.

- **Limit Offsets to Ten Percent of Emission Reductions:** To ensure greater reliance on direct reductions in greenhouse gases by regulated entities, CARB should limit the use of offsets to ten percent of the total reductions required under the cap and trade program during a compliance period. Over-reliance on offsets to comply with AB 32 would reduce the incentive for near-term investment and technological innovation to achieve reductions and jeopardize the state's ability to meet its 2050 emission reduction goals.
- **Prioritize Offset Projects Within California:** Priority should be given to offset projects located within California to offer the state the greatest co-benefits, including the

potential for reductions in criteria air pollutants, toxic air contaminants and related public health impacts as well as the greatest economic benefits from technology advancement. We are concerned that out-of-state offsets not only eliminate the opportunity for any co-benefits within California but also reduce the incentive for California's industries to transition to less carbon-intensive manufacturing and production technologies by exporting these benefits as well. When offset projects are allowed out of state, they should only be allowed in jurisdictions with the legal and governmental capacity to establish and abide by firm agreements that allow California to ensure proper verification, monitoring and enforcement.

- Promote Projects That Benefit Highly Impacted Communities: CARB's criteria for the offsets program should promote the development of projects that provide air quality and public health co-benefits to highly impacted California communities, those communities that suffer the most from pollution and health impacts generated by smog and toxic pollution sources.
- Include Transparency In Offset Transactions: Transparency must be built in to CARB's criteria for approving offset projects. CARB should include public disclosure of information related to the location, design, development, purchasers, and estimated emission reductions and co-benefits of all proposed projects. CARB's disclosure document should be cross-referenced against other trading programs outside of California to ensure that offsets are not being claimed by, or sold to, multiple pollution sources. Measures to ensure public participation in the processes related to developing and approving offset protocols, as well as offset monitoring and enforcement activities, would also allow an opportunity for the public to voice concerns over potential negative health or environmental impacts of a given project.
- Ensure Reductions Are Real, Quantifiable, Permanent, Verifiable, Enforceable and Additional:
 - All greenhouse gas reductions claimed by offset developers must be determined using credible, transparent protocols developed by CARB. The methodology utilized to calculate reduction data must be reviewed periodically to ensure that the calculations remain accurate over time as new projects are introduced.
 - All reductions claimed by offset project developers must be verified by CARB or third-party verifiers prior to issuing compliance credits.
 - Quantification of greenhouse gas reductions should be done using the most conservative estimate for a project's capacity to reduce emissions. Overvaluing the benefits of offset projects, particularly when compared to actual reductions made at capped facilities, could significantly detract from the state's progress toward greenhouse gas reduction goals.

- Ensure Strong Enforcement: Enforcement of the offset program must be strong and consistent. CARB must investigate and issue penalties to offset developers or third-party verifiers that engage in efforts to misrepresent or fail to ensure reductions under the program. Further, CARB should have a mechanism to ensure that entities purchasing offsets take responsibility for the validity of the offsets they purchase and that the reductions are in excess of those that would be achieved through business as usual.

In closing, if capped entities are allowed to meet compliance obligations through the purchase of offsets, the American Lung Association in California strongly recommends that CARB limit the use of offsets in terms of both quantity and geography, and treat environmental and public health impacts and benefits as a key factor in determining the eligibility of offset projects.

Thank you again for considering our comments on offset criteria. We appreciate CARB's work on this issue and look forward to working with staff to ensure that only high quality offsets are considered for compliance credit.

Sincerely,



Bonnie Holmes-Gen
Senior Policy Director