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Kevin Kennedy
California Air Resources Board
1001 I Street
Sacramento, CA

Re: **NORTHERN CALIFORNIA POWER AGENCY Comments on May 21
Workshop on Reviewing and Approving Offset Projects and Protocols**

Dear Kevin:

The Northern California Power Agency¹ (NCPA) provides the following comments in accordance with the direction provided during the California Air Resources Board (CARB) May 21 Workshop, *Reviewing and Approving Offset Projects and Protocols* (May 21 Workshop). These comments address the review and approval of: (1) offset projects, including issuance of offset credits, and (2) offset protocols. For a comprehensive perspective on key positions related to offsets, NCPA encourages CARB to review these comments along with comments regarding qualitative limits on offsets and compliance criteria filed on April 30, 2009 and May 22, 2009, respectively.

Review and Approval of Offset Projects Should be Administratively Simple

CARB has identified a number of important steps that should be involved in the review and approval of offset projects. As NCPA's recommendations are carefully considered by CARB staff, it is important that the process ultimately approved not be administratively burdensome and should be designed to employ only the minimum steps necessary to ensure the integrity of the program.

Issuance: CARB must distinguish between the issuance of offset credits to an entity that purchases the output, as distinguished from issuance of offset credits to a project developer. Issuance of offset credits need not be provided to the entity that received the certification that a project qualifies for offset consideration. However, a procedure must be in place to ensure that

¹ NCPA members include the cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, and Ukiah, as well as the Bay Area Rapid Transit District, Port of Oakland, the Truckee Donner Public Utility District, and the Turlock Irrigation District, and whose Associate Members are the Plumas-Sierra Rural Electric Cooperative and the Placer County Water Agency.

the total number of offset credits issued from a single project comport with the total emission reductions for which the underlying project was initially certified.

Registration: Projects should be registered, but this step should be straightforward and simple. Once a developer begins work on a project, a simple form with pertinent project information can be completed and submitted to CARB. The registration step could also be viewed as the first step in the monitoring process. No other requirements should be involved in project registration.

Verification: A verification process is essential, but need not be burdensome. In order to avoid instances where completed projects are sitting idle, the timeliness of the verification process must be minimal. Consideration should also be given to the costs of verification. Requirements associated with verifying an offset project should not be so onerous as to negate the motivation for the development of the project in the first place. Project developers must have some recourse available if there is disagreement with regard to verification outcome. While a formal “appeal” process is not necessary, there must be ample opportunity for further review of the outcome.

Certification: Certification should be as simple as the initial project registration. Once project verification is complete, the project is deemed to be certified. No further actions should be necessary.

Enforcement: Enforcement is crucial to ensuring the integrity of the offset program. To properly enforce the offset program, CARB must be given the necessary authority to redress violations. Enforcement mechanisms must be aimed at entities violating the rule, and should not penalize an entity surrendering a valid offset credit if malfeasance is discovered on part of a project developer. As with any process, the enforcement mechanisms adopted by CARB must include expedient procedures for reviewing and appealing an adverse outcome.

Monitoring and Reporting: The need to monitor development of the project to ensure its compliance with the approved project protocols is essential to enforcement. Form reporting on the progress of an offset project as it develops will also facilitate the final approval and certification steps, and should provide for a more expedient way of moving the project through to issuance of offset credits. However, ongoing monitoring should not be unduly burdensome or expensive, nor impose unreasonable conditions on project developers. Additional thought must also be given to the project location: is it realistic to monitor the development of all projects?

Validation: If projects are based on the approved protocols, the likelihood that emissions reductions will result as contemplated has essentially been reviewed and determined during the protocol review process. Accordingly, “off the shelf” projects should not require the validation process.

Protocols Should be Approved Immediately

At this point in the AB 32 debate, offsets have been identified as one of the few cost containment tools that will be available to compliance entities. Offset projects, however, often require long lead times to arrange for financing, permitting, and project development. Project developers must have assurances before investing in offset projects. Accordingly, it is imperative that CARB approve offset protocols as soon as possible. The sooner project protocols are in place, the sooner entities have the certainty necessary to start developing offset projects that will facilitate wide-spread emissions reductions.

Protocol Review Should be Simple and Transparent

CARB's initial focus on existing voluntary protocols is a good way to expedite the issuance of approved protocols for projects that can be certified under the State's cap-and-trade program. CARB should not, however, limit its review of existing protocols to California-only projects. CARB should look to existing protocols in other jurisdictions before commencing a time consuming process to develop protocols for projects where protocols already exist in other jurisdictions.

A priority list of protocols available for immediate approval would be helpful to stakeholders and should not be limited to projects located exclusively in California. Geographic limits for offset projects would not serve the immediate purpose of reducing greenhouse gas emissions and would severely restrict opportunities to develop viable offset projects. Indeed, California-only projects would constrain the ultimate effectiveness of offsets as a cost containment measure, thus adversely impacting compliance entities.

CARB's initial thinking is to use a hybrid approach to review protocols and projects. NCPA concurs with this approach, and believes that it offers the greatest opportunities for expedited review and approval of offsets. Such an approach allows for less complex projects to be reviewed more quickly. Such an approach, however, still affords CARB the ability to review more complex projects on a case-by-case basis, without hampering or impeding the ability to expedite certain projects from the onset.

Conclusion

The development of a viable and robust offset program is essential to ensuring that entities in capped sectors have adequate cost containment alternatives to meet the mandated greenhouse gas emission reduction required by AB 32. In this economic environment, offsets will be a key to realizing cost-effective and meaningful emission reductions while minimizing adverse consumer impacts. To that end, CARB must move expeditiously to approve protocols and standards for review of projects so that stakeholders can commence investment and construction of offset projects.

For the reasons set forth herein, NCPA encourages CARB to move expeditiously with approval of project protocols in order to ensure the timely development of offset projects. If you have any questions regarding these comments, please do not hesitate to contact the undersigned or Scott Tomashefsky at 916-781-4291 or scott.tomashefsky@ncpa.com.

Sincerely,
MCCARTHY & BERLIN, LLP

A handwritten signature in blue ink, appearing to read "C. Susie Berlin".

C. Susie Berlin
Attorneys for the Northern California Power Agency