



Union of Concerned Scientists

Citizens and Scientists for Environmental Solutions

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VIA E-MAIL: ccworkshops@arb.ca.gov

Brienne Aguila

California Air Resources Board

1001 "I" Street

Sacramento, CA 95812

Re: Reviewing and Approving Offset Projects and Protocols

Dear Ms Aguila,

UCS would like to thank the California Air Resources Board for its thoughtful May 21 presentation on reviewing and approving offset projects and protocols. We appreciate the opportunity to provide feedback and comments on this important topic. I apologize for getting our comments in well after the comment deadline, but hopefully they are still of some value.

UCS supports an offset policy that ensures that the vast majority of emission reductions occur within the capped sectors, as these sectors are heavily dependent on long-lasting fossil fuel-based infrastructure, equipment, and technology. In order to reach our state's goal of cutting emissions by 80 percent below 1990 levels by 2050, transformation of these sectors toward carbon neutrality must begin immediately and in earnest.

We believe that CARB takes seriously its role in ensuring the environmental integrity of offsets that may be used to achieve the state's emissions cap. As a regulatory agency responsible for ensuring that the legal requirements of AB 32 are met, CARB must place the highest priority on developing processes to ensure that offsets deliver reductions that are real, additional, verifiable and enforceable by CARB, and, to the extent feasible, result in emission reductions or co-benefits within the state.

Project Protocols

UCS agrees with CARB's preliminary support of a hybrid approach in which standardized protocols and methodologies are used to evaluate offset projects, and where CARB also develops a process for the review and approval of new protocols and methodologies, including those brought forward by project developers.

UCS is opposed to a hybrid approach in which CARB develops standardized protocols and methodologies, and in addition agrees to evaluate, on a project-by-project basis, projects that fall outside of an existing protocol or methodology. CARB should promote offset

www.ucsusa.org

Two Brattle Square · Cambridge, MA 02238-9105 · TEL: 617.547.5552 · FAX: 617.864.9405
1825 K Street NW · Suite 800 · Washington, DC 20006-1232 · TEL: 202.223.6133 · FAX: 202.223.6162
2397 Shattuck Avenue · Suite 203 · Berkeley, CA 94704-1567 · TEL: 510.843.1872 · FAX: 510.843.3785
One North LaSalle Street · Suite 1904 · Chicago, IL 60602-4064 · TEL: 312.578.1750 · FAX: 312.578.1751

protocol and methodology standardization for fairness, simplicity, transparency, and environmental integrity, and to lower the state's administrative burden in running the offset program.

If CARB determines that it is particularly difficult to develop an objective, standardized approach to accurately quantify the additional emission reductions from a certain offset project, CARB may determine that that project is not suitable for the offset program, but may be suitable for another source of incentive funding, such as a percentage of allowance revenue. CARB should consider establishing a fund for projects that are likely to achieve additional emission reductions but do not meet the quantification requirements for offset crediting.

Prioritization of Project Types

UCS agrees with the list of factors that should be considered in prioritizing offsets laid out in slide 15. We encourage CARB to include several additional factors:

- Will the project type result in environmental or health co-benefits in California?
- Does a reliable method of determining additionality exist for the project?
- Is the project enforceable by CARB?
- Does the project contribute to technology innovation or transformation of a sector toward long-term sustainability?
- Does the project avoid social and environmental harm?

CARB should utilize a matrix of factors in prioritizing offset project types, so that the full range of costs and benefits of the offset type (including transaction costs, health environmental, and social impacts, leakage risks, etc.) is considered.

Existing Protocols

Modifying existing protocols to comply with the requirements of AB 32 may indeed be resource-intensive. The process for modifying existing protocols should be an open and transparent public process, with opportunity for comment and review of proposed modifications by stakeholders and the public.

Because the price of the offsets should reflect the full cost of bringing the offset credit to market, the cost of protocol development and other costs incurred by the state, including verification, monitoring, auditing, etc., should be reflected in the price of the offset that the buyer faces. This could be accomplished through use of a surcharge, fee, or other mechanism.

Verification

In order to avoid incentives for cheating or collusion between offset developers and third-party verifiers, CARB should assign, and possibly pay, verifiers of offset projects. CARB could take bids on batches of projects from various verifiers, and assign verifiers based on skills, qualifications, lack of conflicts of interest, etc.

Enforcement

If CARB plans to accept credits from offset projects occurring in other states or countries, CARB must establish a legally binding method of enforcing those reductions, which may entail the authority to take legal action against a party who violates the offset rules or protocol requirements, as well as the authority to perform enforcement audits.

As a general rule, capped entities that purchase offsets must be held responsible for surrendering valid credits for their emissions. While verification and credit issuance by CARB should create a presumption that certified credits are valid, provisions should be developed to assign primary liability for offset credit invalidation to the offset purchaser. Mechanisms to address reversals of offset reductions and risks should be identified and required.

There are several additional enforcement issues CARB should consider, including:

- Provisions for sequestration offsets should require insurance in the form of offset buffer pools or insurance that will compensate for any reversals of reductions.
- The requirement of insurance should also be considered for other offset project types to address risks associated with the project.
- Any credited offsets that need to be replaced should be replaced at a ratio that acts as a disincentive for intentional reversals and compensate for any greenhouse gas accounting discrepancies that may result from invalidation.
- Special consideration should be given to post-crediting offset invalidation that is due to negligence, fraud, sequestration reversals or other mistakes.
- CARB should consider invalidating certification of any third party verifier found to have engaged in malfeasance that results in project credit invalidation.
- CARB should consider revoking the ability of an offset credit developer to supply credits to the California market if they are found to have engaged in malfeasance that results in project credit invalidation.
- CARB may exercise civil enforcement authority for the purposes of levying additional penalties for malfeasance by any responsible party.

Thank you for consideration of our comments on this issue. We look forward to working with you throughout the remainder of the rule-making process.

Sincerely,

Erin Rogers
Manager, Western States Climate Campaign