

Ms. Mary Nichols, Chairman
Mr. James Goldstone, Executive Officer
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Via email: ccworkshops@arb.ca.gov

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**Comments on the California Air Resource Boards Staff's May 21
Workshop on "Reviewing and Approving Offset Projects and Protocols"**

Dear Chairman Nichols and Executive Officer Goldstone, thank you for the opportunity to submit these comments on the California Air Resources Board Staff's workshop on reviewing and approving offset projects and protocols within a California cap-and-trade market for greenhouse gases.

I was not able to attend the workshop in person or via webcast and so my comments will track the Staff presentation as posted online. I apologize in advance for any misunderstanding because of my inability to attend.¹

My comments are structured around the slide presentation:

Slide 12: Coordination with WCI Effort

Coordination with the WCI is critical to insure the integrity of the cap. As I'm sure ARB staff is aware, if offset criteria in other WCI member jurisdictions are weak such that non-additional offsets are issued, and there is trading of offsets, offsets and allowances, or even just allowances between these jurisdictions and California, then California's cap will be undermined. The same goes for linkage with other non-WCI emissions trading markets, for example the EU ETS.

Slide 13: Hybrid approach to offset protocols

¹ One comment as to process: both this meeting and the June 5 meeting were noticed with relatively little lead-time. In future and if possible (I know that ARB is working under serious time constraints on the AB 32 docket) it would be preferable to provide more than 6 days notice (May 21 meeting) or 8 days notice (June 5 meeting) so that interested parties are more likely to be able to attend.

ARB staff needs to make more clear what is meant by standardized methodologies. This rubric covers a wide area of potential strategies for structuring offset proposals. As stated, the proposal is unclear and difficult to comment on.

Slide 15: Criteria for prioritization of project protocols

ARB should prioritize project protocols that staff believes, after preliminary study, will have a high likelihood, as compared to other protocols, of producing additional emissions reductions. I would add several criteria to this list: (1) Is the project baseline relatively dependent on subjective assumptions or is it possible to determine a project baseline in an objective fashion; (2) Is the project subject to significant leakage and if so, can this leakage be accurately quantified; (3) Are emissions reductions subject to reversal?.

Slide 21: Validation

Validation that is voluntary will not occur because it is costly. The decision to make it voluntary will mean that essentially no projects will be validated prior to request for registration. This is not necessarily a problem, but ARB staff should bear in mind that this will then require extra work on the part of ARB staff, to check that projects submitted for registration actually comply with approved protocols. If ARB intends to check all projects requesting registration without reliance on third-party verification, then there is indeed no justification for validation. If so, then ARB should consider building these staff costs into the registration fee.

The idea that standardized methodologies will obviate the need for someone, either a third-party verifier or ARB staff, to check that the project proposal actually complies with the baseline and monitoring methodologies specified in the “standardized” methodologies is a bit naïve. This is the case unless there is no need to test for additionality because offsets are deemed additional if the project applies a particular technology.

Slide 22-23: Registration

These slides appear to imply that the validation function will be performed, at least to some extent, by the ARB registration process. If so, then the request for registration should require a demonstration by the developer that the project complies with the baseline and monitoring methodologies specified by the applicable offset protocol. ARB should consider whether a site visit to the project is appropriate, and what level of supporting documentation is required in a request for registration. Criteria for approval of a request for registration should be limited to compliance with the monitoring and baseline components of the applicable project protocol. A processing fee in order to fund the necessary resources required to evaluate the registration request and to cover a fair share of ongoing project protocol development costs is also appropriate at this time. In exchange for this fee,

ARB should strive to provide timely evaluation of registration requests so as to minimize the regulatory uncertainty faced by project developers.

ARB should, in responding to requests for registration, and especially if and when it rejects a request, make clear to the public, the reasons for the rejection. A major problem in other offset regulatory regimes (e.g. the CDM) has been a lack of clarity about the reasons for decisions and a consequent sense on the part of project developers of unfair and arbitrary treatment. ARB should avoid this outcome by making clear what aspects of projects are inadequate when it rejects a request for registration and by abiding by these precedents unless it feels a change is warranted. Transparency of decision making will significantly reduce the regulatory risks faced by project developers and lead to greater participation in the market.

Slides 26-28: Verification

A major problem in other third-party verification regimes for offsets has been a race to the bottom in verification standards brought about by price competition between third party verifiers.² Avoiding this problem should be a high priority for ARB, both in its approach to offset verification and in other areas of the cap-and-trade program where third-party verification is relied upon.

Two complimentary policies might help to insure high quality verification services. The first is a program of active auditing of verifications by ARB combined with nondiscretionary penalties imposed on verifiers found to have made material errors. The second is to realign third-party verifier incentives towards quality. This might be accomplished if ARB rather than the project developer contracted and paid for verification services on a project. Additional costs to ARB could be financed via higher project processing fees. Since developers would not have to pay third-party verification costs directly under this proposal, offset transaction costs would not increase. In any case, ARB should work hard to insure that verification incentives are aligned with ARB, not the project developer if it wants to insure a high quality offset market.

The reality is that verifiers will respond to incentives. Experience has shown that a system wherein stiff competition and repeat interactions with project developers are the norm leads to low quality verification and a lack of confidence in the claims made by offset producers. ARB should avoid this outcome while innovating a new structure for offset verification that preserves the advantages of third party verification while avoiding the pitfalls of extant systems.

² See Michael Wara and David Victor, *A Realistic Policy on International Offsets*, available at pesd.stanford.edu/cdm; Lambert Schneider and Lennart Mohr, *A Rating of Designated Operational Entities (DOEs) Accredited under the Clean Development Mechanism (CDM): Scope, Methodology, and Results*, available at, www.wwf.de/fileadmin/fm-wwf/pdf_neu/WWF_Rating_der_Klimagutachter.pdf.

