

ARB Compliance Offset Program

Early Action Frequently Asked Questions (FAQs)

ARB has developed this Frequently Asked Questions (FAQs) document specific to questions regarding early action. The FAQs respond to frequently asked questions and provide further clarification regarding the requirements in section 95990 of the California Cap-and-Trade Regulation (Regulation).

1. General Early Action Questions

a) Where can I find guidance related to early action?

Section 6.14 of ARB's Instructional Guidance Document (<http://www.arb.ca.gov/cc/capandtrade/guidance/chapter6.pdf>) contains guidance related to the early action program. All guidance related to early action, including the desk review, is included in this document. In addition, ARB has created this FAQ for all questions related to early action. The FAQs will continue to be updated over time as new questions are posed and answered.

b) Where do Offset Project Operators (OPO), Authorized Project Designees (APD), holders of early action offset credits, and verification bodies need to submit information required by the Regulation for early action projects?

All information required in section 95990 of the Regulation related to early action needs to be submitted to ARB, and **not** to an Offset Project Registry.

c) Since early action projects can continue until December 31, 2014, can we transition the early action credits we have now, and then later transition ones that will be generated in the future, or must all credits be transferred at one time in the future?

All early action offset credits do not need to be transitioned at the same time. Early action offset projects may continue to operate under approved early action quantification methodologies until December 31, 2014. By this date, if an offset project wishes to be issued ARB offset credits, the project must transition to an ARB's Compliance Offset Protocol (COP).

d) Must the OPO, APD, or holder complete an Offset Project Data Report (OPDR) as defined in the Regulation for the early action reports that are undergoing a desk review? What are the requirements for the OPDR for early action projects?

No. The term OPDR used in section 95990 of the Regulation refers to the original reporting documentation submitted to the Early Action Offset Program (EAOP) on which the original verification was based. The original documentation related to reporting does not need to meet the requirements for an OPDR as defined in the Regulation. Therefore, OPOs, APDs, or holder(s) of the early action offset credits do not need to retroactively complete an OPDR for the early action offset project's reporting data; instead they must submit the original reporting documentation to the desk review verification body. During the desk review, and any full verification if necessary, the verification body will be reviewing the original reporting materials that were provided to the original verification body. Those reports meet the requirements of the EAOP.

e) I have an offset project that I have developed under an approved early action quantification methodology listed in section 95990(c)(5) of the Regulation. While I have been issued early action offset credits for some of my previous data reports I have some data reports that have not yet been issued early action offset credits by the EAOP. Can I skip the early action verification requirements in section 95990(f) of the Regulation and go directly to an ARB offset verification under section 95977.1, effectively cutting out the need for a desk review verification, and be issued ARB offset credits directly instead of first being issued early action offset credits?

No. If a data report has been developed according to an approved early action quantification methodology, the data report must first be verified and issued offset credits under the EAOP. After offset credits have been issued by the EAOP, they must undergo a desk review to be issued ARB offset credits. The desk review step for early action offset projects cannot be skipped because ARB cannot issue ARB offset credits directly under an early action quantification methodology. For early action, ARB offset credits will only be issued if early action offset credits have already been issued for the data report.

2. Registration with ARB

a) Who must register in the Compliance Instrument Tracking System Service (CITSS) if the project is being listed as an early action project?

The party that is listing the early action offset project must register in CITSS for an account. In addition, an entity must have a CITSS account to receive ARB offset credits

directly from ARB at the time of issuance. If the entity does not have any account, ARB cannot transfer ARB offset credits to the entity.

b) When must the party listing the early action project register in CITSS?

The party listing the early action offset project must register in CITSS before they request issuance of ARB offset credits. However, unlike for compliance offset projects, the party does not need to register in CITSS before submitting the listing information.

3. Early Action Offset Project Listing

a) Is listing an early action project different from listing a project that is reporting under a Compliance Offset Protocol?

Yes. The information required to be submitted for listing an early action offset project is different than the information required for projects that will be listing under a COP. The information required to be submitted for listing an early action offset project can be found in section 95990(e)(2) of the Regulation.

b) Which form should I use to list an early action project?

ARB has created an *Application for Listing an Early Action Project* form that may be used as a convenient way to submit information for listing an early action offset project. This form may be found on the following webpage:

<http://www.arb.ca.gov/cc/capandtrade/offsets/forms/forms.htm>

c) How long must a holder of early action offset credits wait for the OPO or APD to make a decision about listing the early action project, before the holder may list the early action project independently?

Section 95990(e)(1)(C) of the Regulation allows holders of early action offset credits to list early action offset projects if the Offset Project Operator (OPO) or Authorized Project Designees (APD) does not list the early action offset project with ARB. In certain instances, it may not be clear whether the OPO or APD intends to list the early action offset project with ARB. In these cases, the holder of the offset credit(s) must allow the OPO or APD a reasonable amount of time to list the project before the holder seeks to list the project itself. The holder should notify the OPO or APD about the holder's intent to seek issuance of ARB offset credits, and seek clarification from the OPO or APD about whether the OPO or APD intends to list the project. All communications should be conducted in good faith, and the holder must make reasonable efforts to obtain a definitive answer from the OPO or APD.

In the event an OPO or APD does not respond within a reasonable amount of time, or does not provide a good faith answer or efforts to list the project itself, the holder may

submit documents demonstrating its communication efforts to ARB and indicate that it wishes to list the early action offset project itself pursuant to section 95990(e)(1)(C). If the OPO or APD either indicates that it does not intend to list the project itself, or is not making reasonable, good faith efforts toward listing the early action offset project, ARB will allow the holder to list the project according to section 95990(e)(1)(C).

d) Does an early action project need to be listed with ARB before the verification body submits information related to the desk review verification?

Yes. An OPO, APD, or holder must submit the listing information to ARB before the verification body submits information to ARB related to the desk review. This is needed so that ARB has information related to the OPO, APD, or holder listing the early action offset project. In addition, ARB receives information through listing related to verification that must be known for assessing conflict of interest with the verification body conducting the desk review – when listing the early action offset project, the OPO, APD, or holder(s) must name any verification body(ies) that is(are) associated with the early action offset project.

4. Early Action Verification

a) Must an ARB-accredited verification body conducting a desk review or full verification for an early action offset project submit a conflict of interest self-evaluation?

Yes. The ARB-accredited verification body conducting a desk review or full verification of an early action offset project must submit a conflict of interest (COI) self-evaluation. ARB has created an *Evaluation of Conflict of Interest for Early Action Project* form that may be used as a convenient way to submit the conflict of interest self evaluation information required for an early action offset project. This form may be found on the following webpage: <http://www.arb.ca.gov/cc/capandtrade/offsets/forms/forms.htm>

b) How does a desk review verification body find out which parties are holding more than 30% of the offsets issued under an early action report so that it can assess conflict of interest against those parties?

The desk review verification body should contact the EAOP that issued the early action offset credits. Each EAOP has a process in place to share this information with the verification body.

c) Does an ARB-accredited verification body performing a desk review need to perform a review of each report submitted to an EAOP?

An ARB-accredited verification body must conduct a desk review of each report for which an OPO, APD, or holder is seeking to transition early action offset credits into

ARB offset credits. ARB will not issue ARB offset credits for any GHG reductions or removal enhancements that did not undergo the regulatory verification requirements in section 95990(f).

d) What is the intent of the regulatory desk review for early action offset projects?

The intent of the desk review is for the new verification body to review the work that the original verification body conducted that resulted in the issuance of a positive verification statement. When performing the desk review, the new verification body should not provide independent offset verification services. The desk review verification body should only assess the original documentation provided to it, including the early action verification report, to determine whether it believes the reports were done correctly such that it agrees a positive verification statement should have been issued. If the original verification body missed something in its review, it is not the purview of the desk review verification body to independently assess the missing information to see if it would lead to an offset material misstatement. Rather, if the desk review verification body cannot determine from the original verification documents that the verification was performed correctly, or information that would help it reach that conclusion is missing, the desk review verification body should not sign the desk review attestation. The verification body would then need to write a report for ARB describing why it could not agree with the original verification body's opinion and submit it to ARB. ARB will review it and determine whether a full verification would be needed.

e) Is the intent of section 95990(f)(3)(B) of the Regulation that the desk review verification body only confirm that the original verification body under the EAOP performed their calculations correctly?

Yes, the intent of section 95990(f)(3)(B) is for the desk review verification body to check that the original verification body did the calculations correctly.

f) If errors are detected in the original verification body's calculations, would ARB instruct the desk review verification body not to sign the Early Action Desk Review Findings attestation on this basis alone?

Yes, if the desk review verification body finds an error in the original verification body's calculations that causes the early action offset project's emission reduction calculations to fall outside the applicable quantitative materiality threshold as set forth in the early action quantification methodology, the desk review verification body would reject a reasonable assurance opinion on that alone. It would not sign the attestation for the desk review findings, and would submit a report to ARB explaining the reasons why it could not conclude with reasonable assurance that a positive verification statement should have been issued. As long as the desk review verification body does not identify

an error in the original verification body's calculations that causes the early action offset project's emission reduction calculations to fall outside the applicable quantitative materiality threshold as set forth in the early action quantification methodology, the desk review verification body may sign the desk review findings attestations.

g) Is there an expectation that the desk review verification body would further review the OPO or APD's original calculations to identify that no offset material misstatement exists before determining if the attestation can be signed?

No, the intent of section 95990(f)(3)(B) is for the desk review verification body to check that the original verification body did the calculations correctly, not to independently conduct additional calculations to assure there is not an offset material misstatement. As long as no errors are found in the original verification body's calculations that causes the early action offset project's emission reductions calculations to fall outside the applicable quantitative materiality threshold as set forth in the early action quantification methodology the desk review verification body would be able to sign the attestation. Assessing offset material misstatement, based on a review beyond the original verifier's data checks, would fall under the scope of full offset verification services and should not be performed as part of a desk review. There may be many ways for the desk review verification body to check the calculations of the original verification body. It may use internal tools and spreadsheets to input the same data used by the original verification body and determine whether it gets the same output.

h) Is a desk review verification body required to review the original verification body's sampling plan in making a determination as to whether it agrees with the original opinion? What if the original verification body deems its sampling plan as proprietary information?

The Regulation does not require the desk review verification body to review the original sampling plan. Some verification bodies, when conducting the desk review, may feel they must see the original sampling plan to reach a reasonable assurance opinion. If a desk review verification body feels it is necessary to review a sampling plan to reach reasonable assurance on the desk review, it may ask the OPO, APD, or holder for a copy of it. If the OPO, APD, or holder does not have it, and the original verification body does not supply it, or deems it to be proprietary information, the desk review verification body may turn down the contract to conduct the desk review verification or find that it cannot sign the desk review attestation and submit a report to ARB detailing its findings.

i) Does an ARB-accredited verification body performing a desk review for an early action project report need to issue a separate *Early Action Desk Review Findings* for each report?

Yes. The ARB-accredited verification body must provide information related to its desk review for each report that was submitted to the EAOP. ARB has created an *Early Action Desk Review Findings* form that may be used as a convenient way to submit information for the desk review. This form is available on the following webpage: <http://www.arb.ca.gov/cc/capandtrade/offsets/forms/forms.htm>

j) If an early action project is currently reporting and operating under an approved early action quantification methodology can the OPO, APD, or holder skip the desk review step and go directly to full verification?

No. Any GHG reductions or removal enhancements that were achieved and reported under an early action quantification methodology must undergo a desk review. If the early action report fails to meet the requirements of a desk review, it may then undergo full offset verification services, but the desk review step, including submittal of findings to ARB, may not be skipped.

k) If an early action project is currently reporting and operating under an approved early action quantification methodology could the OPO or APD choose an ARB-accredited verification body to perform one verification that can count towards the verification requirements of both the EAOP and ARB, thereby eliminating the need for two (2) types of verification actions?

No. ARB offset credits can only be issued for early action if the early action report has already been verified and issued early action offset credits by the EAOP. In order for an EAOP to issue early action offset credits, the EAOP must have determined that the GHG reductions and removal enhancements meet the requirements of the EAOP, including the EAOP verification requirements. ARB will not issue ARB offset credits directly under an approved early action quantification methodology. If an OPO or APD wishes to streamline the verification process, the OPO or APD could list its offset project under a Compliance Offset Protocol instead of under an EAOP and have its Offset Project Data Report developed according to the Compliance Offset Protocol, and verified once according to sections 95977, 95977.1, and 95977.2 of the Regulation.

l) If an early action project fails to meet the requirements for the desk review and must undergo full offset verification, does the verification body need to submit a Notice of Offset Verification Services (NOVS)?

Yes. If the OPO, APD, or holder elects to conduct full offset verification services after failing a desk review, the verification body must submit an NOVS to ARB. For early

action offset projects, this form must only be submitted to ARB, and not an Offset Project Registry. The NOVS must meet the requirements of section 95977.1(b)(1) and (2) of the Regulation. ARB has created a *Notice of Offset Verification Services for Early Action Projects* form which is available at <http://www.arb.ca.gov/cc/capandtrade/offsets/forms/forms.htm> to facilitate the submission of the required information.

m) If one or more reports submitted to the EAOP must undergo full offset verification services after failing a desk review, must the ARB-accredited verification body submit a separate Offset Verification Statement and detailed verification report for each report being verified?

Yes. If the OPO, APD, or holder elects to conduct full offset verification services after failing a desk review, the verification body must submit an Offset Verification Statement and a detailed verification report for each report for which it is conducting full offset verification services. The verification services, however, may be conducted as one offset verification service.

5. Issuance of ARB Offset Credits for Early Action

a) If I am seeking issuance of ARB offset credits for an early action forest offset project do I have to calculate my Forest Buffer Account contributions as described in section 95990(i)(1)(D) of the Regulation?

No. The OPO, APD, or any holders of the early action offset credits do not need to perform the calculation in section 95990(i)(1)(D) of the Regulation. This calculation will be applied by ARB using the information submitted at the time the OPO, APD, or any holders are seeking issuance of ARB offset credits for early action.

b) If I am seeking issuance of ARB offset credits for an early action forest offset project and ARB finds that I contributed more early action offset credits to the EAOP buffer account than needed under ARB's U.S. Forest Protocol calculation, can I be "refunded" the excess offset credits?

No. If the number of early action offset credits placed into the EAOP's buffer account for forest projects is greater than or equal to what the ARB U.S. Forest Protocol risk calculation requires, ARB will take the entire number of credits in the EAOP buffer account for the ARB Forest Buffer Account and issue one ARB offset credit for each early action offset credit that the OPO, APD, or holder is seeking issuance.

c) The "Request for Issuance of ARB Offset Credits for an Early Action Project" form, does not request specific serial numbers associated with the early action offset credits. Will the OPOs, APDs, and holders of early action

offset credits be able to determine which specific early action offset credits would be retired by the Early Action Offset Program and be issued as ARB offset credits?

OPOs, APDs, and holders of early action offset credits may work with the EAOP that issued the early action offset credits to request retirement of specific serial numbers for purposes of being issued ARB offset credits. The EAOP is responsible for retirement of instruments issued under their system. ARB will check with the EAOP to ensure that the correct number of early action offset credits have been retired by the EAOP. Since ARB's tracking instrument system only tracks ARB offset credits, ARB does not need to know the specific serial numbers of early action offset credits to issue ARB offset credits.

d) Under the EAOP multiple Reports Periods may have been allowed for the same vintage. When ARB offset credits are issued in lieu of the original early action offset credits, will the original Reporting Period be noted in the serialization of the ARB offset credits?

Yes. A publically available project identifier will be made available to identify the exact reporting period for which the ARB offset credits were issued.