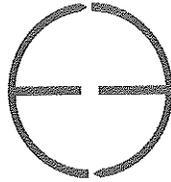


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# California Council for Environmental and Economic Balance

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April 18, 2008

Mr. Kevin Kennedy, Chief  
Program Evaluation Branch  
Office of Climate Change  
California Air Resources Board  
1001 I Street  
Sacramento, CA 95814

## RE: Response to Questions on Offsets

Dear Kevin:

The California Council for Environmental and Economic Balance (CCEEB) is a non-partisan, non-profit organization of business, labor and community leaders that seeks to achieve the State's environmental goals in a manner consistent with a sound economy. On behalf of CCEEB, we want to thank the Air Resources Board for the opportunity to comment on the questions for discussion at the April 4, 2008 Stakeholder Working Group Meeting.

### 1. Should California have an offsets program for compliance purposes?

CCEEB believes that offsets are critical to the success of any greenhouse gas emissions reduction program.

Within California and nationally, economic modeling has demonstrated that offset projects will provide near-term opportunities for cost-effective, verifiable GHG reductions that deliver long-term, sustained emissions reduction benefits. In some models (most notably done by USEPA, CRS and CRA), cap and trade program cost reductions range from 40% to 80% depending on the model and the restrictions (or lack thereof) on the use of offsets. CCEEB believes that allowing the use of offsets, as a compliance mechanism will:

- a.) provide geographically broad coverage, essential to making the most progress on a global issue;
- b.) achieve the emissions goal at lower overall cost (economic efficiency) by providing lower cost compliance options for capped sources;
- c.) Spur technology development and innovation in sectors, sources, and locations within and outside of California not included in capped sectors;



- d.) Build capacity and expertise within and outside of the state across a broader set of activities.
- e.) Facilitate earlier emissions reductions by reducing the risks associated with initial Years of operation of a cap and trade system;
- f.) Help develop accurate reporting methodologies for categories of offset projects; and
- g.) Enhance market liquidity and the success of the program design, giving Participants the confidence to buy and sell allowances, including credits for offsets,

CCEEB urges CARB to provide expedited approval of offset protocols well in advance of the effective date of the program, so that entities (within and without capped sectors) have an incentive to begin the planning and investment to get projects on line given the long lead time for project development. Offset and trading markets in regulated commodities do not develop overnight; they require long ramp-ups and systems development, investment and permitting to gain the necessary interest and liquidity.

## **2. What should the project approval and quantification process be for approving projects?**

A rigorous system must be developed to ensure the environmental credibility and integrity of these reductions. We urge CARB to develop a process that is compatible with other national and international offset project programs. Project verification must be streamlined and cost efficient – for both performance standard and project-by-project methodologies. Third party verification and certification should be part of the program, as should clear, transparent and streamlined approvals of new methodologies. Methodologies that already exist should be able to be used at the outset of the program.

Key components of existing protocol development programs include third party verification and certification, as well as a process to develop methodologies. It is imperative that the widest single pool of project or sectoral methodologies is created in order to assure fungibility, equity and clarity as to the value of any credit generated through this program. A preference for national, rather than state or sub-state offsets programs should be considered as a policy priority. However, CARB, in developing these offset protocols, must recognize the more stringent regulatory environment in the State, which will make it more difficult for instate facilities to get offset projects approved. In the meantime, CARB should move forward with an aggressive offset program that can be integrated with national and international programs. This will ensure maximum program cost containment and market liquidity for the California program. CARB staff should oversee the approval of offset protocols internally, and to expedite the process, approve those presented by industry sectors to aid in their development.

A standard should be developed that would ensure high quality offsets, with reductions that are real, verifiable, quantifiable, permanent, additional, and enforceable (as required by California's AB 32, the Global Warming Solutions Act of 2006). Taking this approach

could help encourage early actions, spur technology innovation, reduce overall program costs, offer ancillary benefits and jump-start needed emissions reduction activities.

A robust and liquid offset market can serve that purpose, particularly in the early years of a GHG reduction program. However, for offsets to be effective and available, CARB should expedite the development of protocols to support offsets and send a clear signal that it will play an integral role in its program. Protocols for qualifying offset projects should be objective, uniform, and based on performance standards. Additionally, offsets should not be restricted geographically or quantitatively. Offsets are a way of achieving emission reductions in the non-capped sectors of a state cap and trade program as well as nationally and internationally.

**3. Should there be quantitative limits on the use of offsets for compliance purposes? If so, how should the limits be determined?**

No, perhaps the most fundamental reason for allowing offsets is that a reduction in GHG emissions is equally beneficial no matter where that reduction takes place because GHG emissions disperse rapidly around the globe. This scientific fact makes offsets based on reductions in GHG emissions wherever they can be found equally beneficial to reductions in emissions at the individual, state, or regional level in terms of serving the fundamental purpose of any GHG reduction program – real GHG emissions reductions that lessen the risk of global warming. Setting a quantitative limit only serves to:

- Reduce the ability to utilize lower-cost compliance options and thereby increase compliance costs;
- Reduce the market signal to, and potential ancillary benefits from, sectors, sources, and locations not included in the capped sectors; and
- Constrains development of a robust offsets market.

Offsets must play a significant role in any policy that hopes to succeed in developing a GHG reduction program that actually diminishes significantly the risk of global warming. Arbitrarily setting quantity limits on validated offsets serves only to drive up the cost of GHG reduction thus frustrating the effort to successfully address the issue of global warming. Global warming is a global problem with global causes. Offsets are a practical necessity to effectively combat global warming.

**4. Should California establish geographic limits or preferences on the location of projects that could be used to generate credits with the offsets system?**

No. Offset credits should be allowed for compliance purposes without any geographical or quantitative restrictions. Restricting an offsets program to projects located within a certain or geographic sphere or to those that provide co-benefits is contrary to what should be the fundamental aim of an offsets program, i.e. achieving GHG reductions that materially improve the chances of avoiding the significant adverse effects of global warming at the lowest cost.

Developing economies are using more energy to fuel their economic growth and thereby increasing the amount of GHG emissions while at the same time rejecting binding caps on emissions. If we place constraints on finding low cost offsets in the name of obtaining local “co-benefits” or creating local “green jobs,” California will inhibit, rather than lead attempts to convince the developing nations of the world that they can afford to grow their economies while reducing GHG emissions. Instead, by developing offset program protocols and establishing a process early for developing projects in California, we can ensure the local benefits are captured in addition to leading the developing world to a low carbon future.

## **5. Should California discount credits from offset projects?**

There are risks associated with any project, including offsets. It would not be possible to design a system that had no uncertainty, even if it were limited to CO<sub>2</sub> emissions from burning fossil fuels. An approach that enables trade in more greenhouse gases from more sources and sinks would provide stronger incentives for mitigation of all greenhouse gases. There is not a need to discount credits from offset projects as the market will account for the risk of the transaction.

As long as projects meet the criteria of AB 32, the value of each emission reduction should be the same as if it came from an “in-house” project. Independent third party verification provides the proof that the emission reductions actually occurred and there should be no need for an application of the discount factor. Any perceived risk associated with a potential offset project is assessed by the marketplace between the seller and purchaser of the offset. The bottom line is a GHG emission reduction from an offset project that is deemed to be real, permanent, quantifiable, verifiable, and enforceable per AB 32 should have the same value as any other GHG emission reduction. A discounted credit would only serve to penalize high quality offset projects.

In closing, California’s businesses operate under the most stringent environmental regulatory program in the world. Energy efficiency has been one of the primary goals in this state for the past thirty years. Domestic GHG emission reductions will not be easy to come by. The use of offsets will be critical to the success of a GHG emissions reduction strategy and any disincentive to utilize them will severely impact the success of such a program.

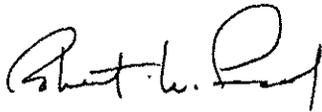
In CCEEB’s view, if the offset market is available prior to the launch of a cap and trade program, the dual benefits of early and additional emissions reductions and managing compliance costs will be enhanced. And, again, we believe it is very important to recognize that offsets may be especially critical in the early years of both a regulatory and a cap and trade program, depending on other design elements, including the emissions trajectory, allowance allocation and other cost-containment measures. This need to facilitate early offset use is in part due to the necessary lead times for certain GHG reduction measures in capped and non-capped sectors. Offsets also are important in the later years of the program as facilities must meet an ever-reducing cap.

CCEEB therefore strongly encourages the adoption of offset policy criteria that assure that offsets are real, permanent, verifiable and enforceable, but to resist the temptation to add additional conditions to the process that would work against the fundamental goal of reducing GHG emissions at the lowest cost possible. In addition, CARB should fully recognize offset credits from projects already certified and verified by the Clean Development Mechanism of the UN Framework Convention on Climate Change (UNFCCC) and should consider recognition of any other national or international offset program.

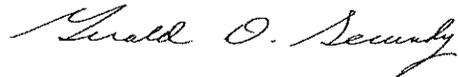
Imposing limits on the use of offsets, either quantitative or geographic – simply raises the cost of the emission reduction program. This increased cost will affect the ability to reach longer term and increasingly challenging emission reduction targets at a cost that is acceptable to society.

Thank you for the opportunity to comment. If you have any questions or would like to discuss further, please contact Bob Lucas at (916) 444-7337.

Sincerely,



Robert W. Lucas  
Climate Change Project Manager



Gerald D. Secundy  
President

cc: Mary Nichols and Members of the Board  
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Tom Cackette, Chief Deputy Executive Officer, Air Resources Board  
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