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Clerk of the Board
California Air Resources Board
1001 I Street
Sacramento, California 95814

RE: California Air Resources Board Comments Compliance Offset Protocols
Suggested Language Regarding Mexican ODS

Nexant is a spin-off from Bechtel and a premier global provider of smart grid, clean energy, and energy efficiency solutions to Fortune 500 companies, educational institutions and government agencies. The firm's headquarters are in San Francisco with over two dozen national and international offices. Nexant believes a robust and active compliance offset market is essential to reduce the overall cost of the California Cap-and-Trade Program on California consumers. As such, Nexant supports the Air Resources Board's (ARB) efforts to extend the application of the four Climate Action Reserve (CAR) protocols proposed for Board approval to projects in Mexico and Canada.

This will increase the overall supply of offsets, while maintaining the environmental integrity of the system. It would also be a means to support the already close collaboration the State has established with our North American neighbors on important environmental challenges such as climate change. Therefore, ARB should look for every opportunity to extend the accepted CAR protocols.

Nexant believes ARB should extend the protocol for the destruction of Ozone Depleting Substances (ODS) to projects beyond the U.S., including projects in Canada and Mexico. However, ARB has indicated in its Staff Report that it does not intend to make this extension to projects in Mexico.

The reference is made in a footnote, and is as follows:

"Staff does not intend to evaluate an ODS protocol for offset projects in Mexico because the substances covered under the protocol have not yet been completely phased out in developing countries."¹

This statement, in fact, is erroneous. Under the Montreal Protocol, ODS production is completely phased out in all Article 5 countries by January 01, 2010. Mexico has ratified the Montreal Protocol and is listed under the Protocol as an Article 5 country². Correspondingly, Mexico has completed phase out of ODS production.

Therefore, projects that destroy ODS in Mexico after January 01, 2010 can be considered additional under the requirements set forth in the Staff Report³.

In the interest of disclosure, Nexant has invested in offsets to be originated from ODS destruction projects in Mexico. Nexant's investments were made to facilitate the flow of capital to these types of projects after a protocol for the destruction of ODS in Article 5 countries was adopted by CAR.

Although not itself a regulated entity under this program, Nexant's activities in this market serve as a vital source of early capital for carbon offset projects. Our investment in these projects ensures a robust and early supply of offsets, which enhances the cost containment benefits of the offsets component of the Program.

Taking the above under consideration, Nexant encourages ARB Staff to consider the extension of the CAR U.S. ODS destruction protocol to qualifying projects in Mexico. In any case, Nexant highly recommends ARB delete from the Staff Report the footnote referenced above.

Taking this action will eliminate the considerable uncertainty of the potential qualification of post-2009 Mexican ODS projects for compliance under the California Cap-and-Trade program. This uncertainty has the effect of eliminating a high-quality and low-cost source of offsets, which would ultimately contribute to controlling the cost of the Cap-and-Trade Program to the State's consumers.

We appreciate the opportunity to share our concerns regarding this matter with the California Air Resources Board.

Best regards,

A handwritten signature in blue ink, appearing to read "Paul R. MacGregor", with a horizontal line extending to the right.

Paul R. MacGregor, Ph.D.
Senior Vice President
Nexant, Inc.

¹Mark California Environmental Protection Agency, Air Resources Board, "Proposed Regulation to Implement the California Cap-and-Trade Program", PART I, Vol I, "Staff Report: Initial Statement of Reasons", Page III-11.

²Mark http://ozone.unep.org/Ratification_status/list_of_article_5_parties.shtml

³Mark California Environmental Protection Agency, Air Resources Board, "Proposed Regulation to Implement the California Cap-and-Trade Program", PART I, Vol I, "Staff Report: Initial Statement of Reasons", Page III-10 ("Sec. III, A., 7., b., 1.)