



April 13, 2007

Winston Hickox, Chair  
Lawrence H. Goulder, Vice Chair  
Market Advisory Committee  
California Environmental Protection Agency  
1001 I Street, 15<sup>th</sup> Floor  
Sacramento, CA 95818

**Re: Comments for the Cal-EPA Market Advisory Committee**

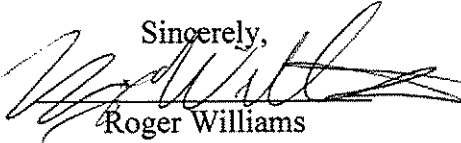
Dear Chairman Hickox, Vice Chairman Goulder, and Committee Members:

On behalf of the Carbon Offset Providers Coalition, we are grateful for the opportunity to submit the attached comments to assist the Market Advisory Committee in fulfilling its vital advisory functions with respect to the design of an environmentally sound, efficient, and fair greenhouse gas regulatory regime for California under AB 32.

The Coalition comprises companies that are leaders in the carbon offset market, including those involved in financing, producing, generating, providing, aggregating and/or marketing greenhouse gas ("GHG") emission reductions for sale as offsets in existing and emerging voluntary and compliance GHG emission trading markets. We offer these comments based upon our experience operating within these compliance markets as well as the voluntary market.

We believe that the emerging market sector represented by this Coalition can make a significant contribution both to the achievement of the objectives embodied in AB 32 and to the economic and environmental well-being of California and Californians, *if* the regulatory regime is constructed properly. We therefore want to share our observations on the general design elements for a GHG emissions reduction regulatory regime that we see as critical to providing a workable framework. We also want to share our views on the specific elements of an offset program that we believe would contribute to both the environmental integrity of the AB 32 program and to the economic efficiency of the reduction measures.

We would be happy to provide further information to you or to the Committee staff if you have any questions.

Sincerely,  
  
Roger Williams  
Chairman  
Carbon Offset Providers Coalition



## **Comments of the Carbon Offset Providers Coalition for the Cal-EPA Market Advisory Committee**

The Carbon Offset Providers Coalition comprises leading companies in the carbon offset market, including those involved in financing, producing, generating, providing, aggregating and/or marketing greenhouse gas ("GHG") emission reductions for sale as offsets<sup>1</sup> in existing and emerging voluntary and regulatory GHG emission trading markets. The Coalition's purpose is to ensure that evolving GHG regulatory regimes in the United States are developed in a manner that promotes both environmental integrity and economic efficiency. We offer these comments and suggestions to the Cal-EPA Market Advisory Committee in an effort to assist it with its important advisory duties.

### **Executive Summary of the Coalition's Comments**

Climate change is an urgent problem that will require all means available to achieve the GHG emissions reductions necessary to stabilize the climate. Consistent with the severity and urgency of the problem, AB 32 established ambitious goals for reducing GHG emissions. We join the growing consensus that believe that market-based cap-and-trade programs that include offsets offer the best way to meet the challenges of climate change and should be utilized in implementing AB 32. Cap-and-trade programs harness the significant power of the marketplace to provide incentives for the development of new technologies as well as encouraging broad participation across the economy. Offsets serve as a valuable tool for reducing GHG emissions in both the short and long-term and work best within a cap-and-trade program.

Offsets provide regulated entities with additional flexibility and compliance options to reduce GHG emissions using existing, proven technologies and resources, while new technologies are developed to reduce reliance on carbon-based fuels and further reduce GHG emissions. While offsets have value in reducing GHG emissions in both the near- and long-term, they have particular value in the near-term, as they will ease the transition to the new carbon-constrained economy. Attempting to force a sudden shift to the new economy by mandating severe GHG emission reductions would be politically infeasible or, if achieved, economically disastrous, as many entities would be unable to make the transition quickly. The severe social costs endured by the Eastern European countries that forced sudden shifts to a market economy stand as an example of the risks of such an approach. No one contends that offsets alone are the

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<sup>1</sup> For the purposes of these comments, we use the term "offsets" to refer to uniform, tradable units of GHG emission reductions generated by entities that are not subject to GHG emission limits. We use the term "allowances" to refer to similar uniform, tradable units of GHG emissions allowed under a GHG reduction regulatory regime. Both "offsets" and "allowances" are sometimes referred to as "credits," though in an effort to avoid confusion we do not use that more general term here.

answer to global warming. Rather, they are one of many valuable tools, and we will need all of the tools at hand to meet the challenges of climate change. By achieving verifiable GHG emissions reductions now, offsets help ensure an efficient allocation of resources, thereby enabling resources to be used to help develop the new technologies that will be necessary to meet the objectives of AB 32, as well as other basic social and economic needs of all Californians.

The focus of the Coalition's comments is the offset program that we believe should be implemented as part of California's GHG regulatory regime. With this in mind, we briefly address key design principles of a GHG regulatory regime, including the importance of a cap-and-trade program and the benefits of offsets within such a regime. We then discuss in more detail important elements that should be incorporated into an offset program. Our comments are organized as follows:

**Section I. Two Key Principles for the Design of a GHG Emissions Reduction Regulatory Regime.**

- A. Cap-and-Trade is the Best Model For California.
- B. Offsets Should Be Eligible for Compliance.
  - 1. Offsets are an environmentally beneficial and cost-effective market mechanism for reducing GHG emissions.
  - 2. Offsets provide numerous environmental and economic benefits.
    - a. Offsets offer near-term, environmentally-friendly reductions in GHG emissions that are real, verifiable, and additional.
    - b. Offsets provide flexibility to achieve compliance through lower-cost compliance mechanisms that prevent premature retirement of assets and preserve California's economy.
    - c. Offsets maximize GHG reductions by increasing participation and reducing emissions from non-regulated sources.
    - d. Offsets stimulate innovation.
  - 3. An offset program should be developed now.

**Section II. Specific Design Elements for an Offset Program.**

- A. A Credible, Balanced Authority Must Establish and Maintain the Qualifying Criteria for Offsets.

- B. Any Project that Meets the Standards for Qualifying Offsets Should Be Eligible for Emission Trading.
- C. The Standards for Additionality Should Be Practical, Environmentally Sound, and Objective.
- D. The Geographic Scope of Qualifying Offsets Should Not Be Limited; Offsets Should Be Recognized Wherever They Are Generated.
- E. Discounting Offsets and Quantitative Limits on Offsets Are Unnecessary.
- F. California's Offset Market Should Be Linked to Other Carbon Markets.
- G. The Project Start Date for Offsets Should Be Established as Early as Possible.
- H. Changes in Regulatory Requirements Should Not Affect Established Offsets.

### **Section III. Conclusion.**

#### **I. TWO KEY PRINCIPLES FOR THE DESIGN OF A GHG EMISSIONS REDUCTION REGULATORY REGIME.**

Although the Coalition's primary focus is on the specific details of an offset program that should be established under AB 32, we highlight for the Committee two key design principles that should be integrated into the foundation of a market-based GHG reduction regime under AB 32. We limit our comments at this stage to principles of overriding importance both to our sector and to California: (1) the regulatory framework should be based on a cap-and-trade approach; and (2) the regulatory framework should include a program for the recognition of offsets from project-based GHG reductions.

We offer these comments based largely on our members' experience participating in the existing GHG emissions trading markets. We commend Cal-EPA for its commitment to learning from the experience of the rest of the world in addressing climate change, as demonstrated most recently by Secretary Linda Adams's series of meetings in Europe, and we believe that the experience of our members with these existing programs thus may be of benefit.

##### **A. Cap-and-Trade is the Best Model For California.**

GHG emission reductions should be accomplished through a market-driven approach based on a cap-and-trade program that includes as many economic sectors as is reasonably practical and places specified limits on GHG emissions. Market trading is the only proven system that allows businesses to identify the most cost-effective means of reducing GHGs to achieve California's climate goals while minimizing negative impacts on the economy and tax base. At the same time, a cap-and-trade system will provide a level playing field for regulated entities, create opportunities for the market to identify cost-effective reductions to minimize the

economic impact on California, and set a market-driven price signal for carbon that will drive innovation for a long-term solution to the climate change problem.

**B. Offsets Should Be Eligible for Compliance.**

Entities subject to GHG emissions controls should be permitted to satisfy their reduction obligations through the purchase of qualified, standardized GHG offsets. As discussed below, offsets provide numerous environmental and economic benefits and are equally effective in reducing GHGs, and in many ways are superior to, internal reductions or the purchase of allocations on the emissions market. The specific design elements that we believe will be important in developing a California offset program are discussed in detail in Section II.

**1. Offsets are an environmentally beneficial and cost-effective market mechanism for reducing GHG emissions.**

Offsets are an environmentally beneficial and cost-effective market mechanism for capturing the environmental and economic value of the verified GHG emissions reductions created by entities that are not otherwise subject to a GHG regulatory regime. In essence, it is a market exchange unit that measures GHG emission reductions achieved by projects using a variety of means. Examples that are recognized in other GHG emissions markets include carbon sequestration, methane capture, energy efficiency, and renewable energy projects. Offsets are distinct from GHG emission allowances that are issued to and traded by regulated entities within a cap-and-trade program. Unlike allowances, offsets normally are generated by projects outside of the GHG regulatory regime which achieve GHG emission reductions beyond what would otherwise occur. Offsets that meet defined eligibility requirements can be purchased by regulated entities and used to meet the emissions limits that apply to them under a GHG regulatory regime.

**2. Offsets provide numerous environmental and economic benefits.**

The benefits of offsets are many, but we focus on the following four for the purposes of these comments. Offsets provide: (a) immediate, environmentally beneficial reductions in GHG emissions using proven methodologies; (b) flexibility in achieving emission reductions through lower cost compliance mechanisms that prevents premature retirement of assets, preserves California's economic competitiveness, and improves allocation of resources; (c) maximum participation of all sources of GHG emissions, including non-regulated sources, thereby increasing emissions reductions throughout the economy and reducing the overall cost of the regime; and (d) clear, direct financial incentives for innovation.

**a. Offsets offer near-term, environmentally-friendly reductions in GHG emissions that are real, verifiable, and additional.**

Offsets offer immediate environmental benefits by taking advantage of existing, proven technologies for reducing GHG emissions that do not require substantial investment of time or capital (which will be necessary to achieve AB 32's long-term emission reductions goals). Projects such as carbon sequestration, methane capture, energy efficiency, and renewable energy

are proven methods of reducing GHG emissions that also provide collateral environmental benefits, including natural resources restoration, improved water quality management, reduction of other air pollutants, and also economic support of forestry and farming, sectors that often have been neglected. Many offset projects offer opportunities for clean development in parts of the world that desperately need it. Thus, offsets are entirely consistent with AB 32's environmental justice objectives as well as its environmental and economic objectives. Further, a well-designed offset mechanism, as we discuss in Section II, can address perceived environmental risks by ensuring that only qualified reductions in GHG emissions are used to generate offsets.

**b. Offsets provide flexibility to achieve compliance through lower-cost compliance mechanisms that prevent premature retirement of assets and preserve California's economy.**

Offsets offer regulated sources of GHG emissions the flexibility to achieve compliance through mechanisms that often cost less than the measures that would be necessary to reduce their own GHG emissions. A concern with any GHG reduction program is that it will force businesses to retire assets before the end of their useful lives or invest heavily in unproven technologies that may provide only marginal GHG reduction benefits. While a cap-and-trade system addresses this concern in part by allowing companies to buy and sell allocations to achieve compliance, a trading program that recognizes only reductions within the regulated community (or within a particular industry sector) still limits compliance options. For regulated entities with prohibitively expensive compliance options, assets with remaining useful life may be prematurely retired or replaced with assets that provide only marginal emission reductions. This stifles California's economy and misallocates limited capital resources. Offsets address this concern by increasing the compliance tools available to regulated sources of GHG emissions and allowing them to utilize the most efficient mechanisms to achieve compliance.

**c. Offsets maximize GHG reductions by increasing participation and reducing emissions from non-regulated sources.**

Unlike a command-and-control regime or a carbon tax, offsets reduce emissions from sources outside the regulated community and from sources that otherwise may be difficult to target with other abatement mechanisms, thereby maximizing reductions throughout the economy. Offsets also provide clear financial incentives to unregulated sources of GHG emissions that can reduce emissions efficiently by generating offsets that can be sold to and used by regulated sources with higher compliance costs. Similarly, offsets encourage technology developers to create low-cost compliance options. Given the global reality of climate change and its effects on California, reductions throughout the economy will be vital to stabilizing the climate and protecting California's natural resources. Use of offsets increases the type and quantity of GHGs included within the regulatory regime and provides further incentives to reduce emissions wherever emitted.

**d. Offsets stimulate innovation.**

Offsets provide clear financial incentives for technological innovation over the short- and long-term. Achieving the goals of AB 32 will necessitate development of new technologies and

products to reduce GHG emissions. Businesses that rely heavily on GHG emitting substances and processes will be forced to develop methodologies for monitoring, reporting, and controlling emissions, in addition to reducing their reliance on carbon-based energy. The businesses that are most successful at addressing carbon emissions will become more competitive. Offsets provide direct financial incentives for both regulated and non-regulated entities to reduce GHG emissions and develop technologies necessary to achieve the objectives of AB 32.

**3. An offset program should be developed now.**

Combating climate change and achieving the goals of AB 32 will require significant technological development and capital investment. Offsets are a formidable tool for reducing emissions through already established methods of reducing GHGs. Enabling the deployment of these projects will generate necessary experience in reducing emissions while more time- and cost-intensive technologies are developed to reduce our reliance on carbon based fuels and technologies. The Coalition acknowledges that offsets are not the sole solution to reducing GHG emissions over the long-term; rather, they are an important part of the solution. Offsets are particularly important in the near-term, however, as they provide real and immediate opportunities to significantly reduce GHG emissions at comparatively low-cost, with both environmental and economic benefits.

Not only is there no reason to delay the early establishment of rules enabling use of offsets in the development of California's GHG regulatory regime, there are compelling reasons to do so now. The viability of a robust offset market will depend in large part on the expectations of investors and project developers. Uncertainty about the terms for offsets or whether they'll even be recognized will both delay and limit the ability of this market to grow and to develop new projects to help address the challenges of climate change. It thus is important to design an integrated GHG reduction regime that takes into account at the outset the role of key elements such as offsets.

**II. SPECIFIC DESIGN ELEMENTS FOR AN OFFSET PROGRAM.**

Given the merits of offsets, we believe that it is vital that the elements of an offset program be considered now during the overall design phase of the AB 32 regulatory program. The points below highlight the key elements of an offset program.

**A. A Credible, Balanced Authority Must Establish and Maintain the Qualifying for Offsets.**

As an initial matter, it is vital that the qualification standards and the rules governing the determination of project qualification, monitoring and verification should be established by a regulatory authority (such as CARB or Cal-EPA with the input of the California Climate Action Registry) through an open, consensus-based, public participation process. We view the Committee's work as an important first step in the process, and as a key stakeholder, we look forward to working with the other regulatory authorities as the process moves forward.

In general terms, the offset program should include a clear description of what kind of offset qualifies as equivalent to an emissions allocation unit that can be freely traded and used for compliance within the AB 32 regulatory scheme. *Qualified offsets must result in GHG emission reductions that are real, verifiable and verified, transparent, and additional (as defined by an objectively measurable standard).* To be effective, it is essential that all processes must be credible and efficient, both of which also mandate that the process be transparent.

The primary challenge in designing an effective offset program is in striking an appropriate balance between the need to ensure the environmental integrity of offsets being sold on the compliance market, and the need to ensure that those integrity-promoting measures are not structured so as to stifle the incentives for investment in new offset projects. Offset programs that are designed solely with environmental integrity in mind, without taking into account the needs of project investors for certainty and stability, will cause the program to be stillborn, as investments in this market will not occur. That would cause compliance costs for regulated entities to increase, and cost-effective opportunities to generate emission reductions outside the system will not emerge.

It is generally recognized, and it has been our members' experience, that the offset programs in existing regulatory markets have followed that unfortunate path. We believe it to be vitally important that California avoid these mistakes. And it can do so, for a balance that achieves environmental integrity, while minimizing the risks that have discouraged investments in other offset markets, *is* achievable. We here identify several elements that would contribute to such a balance.

**B. Any Project that Meets the Standards for Qualifying Offsets Should Be Eligible for Emission Trading.**

A basic design principle is that any type of offset project meeting the standards for a qualified offset should be eligible. There should be no exclusive list of qualifying offset project types, nor should other offset types be excluded at the outset simply because they rely on methodologies for baselines, measurement or verification that have not been previously approved.

California should, however, consider the adoption of a pre-approved list of specific project activities that are recognized as additional and otherwise qualified, in order to streamline the approval process and reduce the risk to investors that a project will not be qualified. This list should serve to "fast-track" certain well-recognized project categories. It should not, however, serve to exclude the recognition and qualification of otherwise qualified projects. *Any project that meets the qualification criteria should be eligible.*

For those projects that do not fall within the pre-approved category, they should be reviewed according to an individual approval process that is transparent and timely. One model for the approval process that reduces investor risks and improves the prospects for financing project activities is a two-step process of registration and issuance. Under this model, a project can receive an advance determination of qualification, which will allow developers to raise capital and develop the project, followed by the subsequent verification of emission reductions



after operations commence and implementation is confirmed. Delaying a determination about whether a particular project will qualify under the program will increase investor uncertainty and reduce the number of projects that are developed and introduced into the market. Unnecessarily stringent limitations on the types of projects that qualify as generating offsets will increase that uncertainty, and therefore should be avoided.

To be sure, different project types will bear different environmental risks. The existence of risks must not halt action though. The challenge of global warming is too great and too immediate to afford the luxury of avoiding all risk. As Senator Diane Feinstein said in her recent address to the U.C. Berkeley conference on cap-and-trade as a tool to address climate change, we must not allow the perfect to become the enemy of the good. And there is no need to do so, as there are ways to address such risks. A well-designed offset program need not exclude projects with environmental risks *ab initio*, nor should it impose insurmountable barriers to entry for offset project developers. Instead, risks associated with a particular project, or with a particular category of projects, can and should be identified and managed through specific design elements in the offset program. These risk management tools include, for example, the adoption of conservative measurement and verification protocols for projects that pose inherent measurement challenges (*i.e.*, risk-based discounting at the offset issuance stage).

Conversely, project types that pose minimal risks and present well-established measurement and verification protocols should benefit from design elements in the program that ensure rapid eligibility review and streamlined issuance of offsets. For project activities that have well-established reduction results, for example, offsets could be issued based on a pre-approved formula rather than a case-by-case measuring and verification process. Alternatively, they could benefit from pre-approved measurement and verification protocols, rather than being required to develop and justify individually tailored protocols on a project-by-project basis.

**C. The Standards for Additionality Should Be Practical, Environmentally Sound, and Objective.**

The standard for evaluating additionality should be one that is *practical, environmentally sound, and objectively measurable*. Rather than a subjective analysis of the intent of the project developer, the additionality standard should be aimed at developing an objective assessment of the project's performance metric.

There are a number of alternative regulatory approaches to confirm the additionality of projects that could satisfy this basic principle, striking the appropriate balance between environmental integrity and the certainty that investors and project developers require in order to foster a functioning market. We believe that the best way to achieve this balance is to define additionality in terms of whether or not a project is additional to regulatory mandates.

Massachusetts recently looked closely at this issue. In 2005 the Massachusetts Department of Environmental Protection ("MassDEP") proposed regulations regarding the offsets portion of its GHG reduction program. It then held numerous public hearings and received voluminous comments. As in other discussions of additionality, many of the public comments endorsed the concept of "financial additionality," suggesting that offset projects

should be disqualified if economic factors other than the potential economic value of the offsets help to support the project or lead to its inception. In its Response to comments late last year, MassDEP concluded that “the concept of financial additionality is too subjective and difficult to determine on a case-by-case basis.”<sup>2</sup> Accordingly, MassDEP revised its definition to clarify that the standard turns on whether an offset project is in addition to regulatory mandates.<sup>3</sup> This approach is both practical and objective, requiring only reference to existing regulations and not an entity’s subjective intent. Moreover, because the standard hinges upon regulatory mandates, it provides sufficient discretion to the regulatory authorities to ensure the environmental integrity of offset projects.

Lastly, it is important to place this discussion in its real world context. Some contend that the commercial arrangements that are the basis of a project can never change. In our experience as project developers, owners and operators that are actually creating these projects, this view does not reflect market realities. A limitation on qualifying offsets based on subjective and unnecessarily constrained requirements will stifle this emerging market in its infancy.

**D. The Geographic Scope of Qualifying Offsets Should Not Be Limited; Offsets Should Be Recognized Wherever They Are Generated.**

Qualifying offsets should be recognized wherever they are generated. There is no environmental reason to favor or disfavor otherwise qualified projects solely on the basis of their geographic location, and sound economics indicates that geographic discrimination will impose unnecessary burdens on the overall cap-and-trade program. Climate change is a global problem and poses no localized “hot spot” concerns with respect to GHG emissions. Artificially imposed geographic restrictions would be inefficient from a market standpoint, and increase the cost of compliance for Californians. There are also significant questions about the constitutionality of such limitations under the Commerce Clause.

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<sup>2</sup> Response To Comments On Proposed Amendments To 310 CMR 7.00 *et seq.*; 310 CMR 7.00 Appendix B: “Emission Banking, Trading, and Averaging”; and 310 CMR 7.29, “Emissions Standards for Power Plants” (MassDEP Bureau of Waste Prevention) (September 2006) at 7; available at <http://www.mass.gov/dep/air/laws/ghgrtc06.doc> (viewed April 12, 2007).

<sup>3</sup> The final definition, *see id.* at 26, states:

“**Additional**” means GHG emission reductions, avoided emissions, or sequestered emissions that are not required by local, state or federal law or regulation, or as part of a local, state or federal permit, plan, or plan approval, agreement, administrative or judicial order, or as part of an enforcement action (including such laws, regulations, permits, plans, plan approvals, agreements, orders or actions taken to reduce other pollutants) at the time of submittal of a certification application. A requirement to obtain a permit or plan approval under local, state, or federal law solely for the purpose of constructing, installing, or operating a voluntary emission reduction, avoided emission, or sequestered emission project shall not be considered when determining whether or not such project is additional.

Establishing a broad geographic scope for the program has economic and cultural benefits in addition to environmental benefits. It creates incentives for the development of new GHG reduction technologies by creating new markets that innovators in California can serve. In addition, expanding the geographic scope can help to remove barriers to full integration in the world economy that many in rural communities both here and abroad face. Offset projects in the developing world provide invaluable opportunities to otherwise terribly disadvantaged sectors of the world's economies and peoples, the very ones that the Stern Report amongst others have identified as those most likely to bear the greatest costs of adjustment to climate change. We invite the Committee to review the many projects in many countries, including the United States, that our members have developed that not only reduce GHG emissions but also provide clean development opportunities for otherwise disadvantaged communities. Our members' experience with these projects informs our policy view that, in addition to its other benefits, the inclusion of an offset program in California's GHG regulatory regime will help to make real the values of environmental justice that are embodied in AB 32.

**E. Discounting Offsets and Quantitative Limits on Offsets Are Unnecessary.**

Limits on the use of offsets to achieve compliance with GHG emission limits are not warranted. Offsets should be available for compliance purposes on a 1:1 basis with allowances (*i.e.*, not discounted *vis-a-vis* allowances), and the system should be designed so that each offset is fungible and interchangeable and can be traded efficiently as a commodity. There is no rational basis to discount the value of offsets once they are issued, since under the most widely accepted formula any qualified offset reduces the equivalent of 1 metric ton of CO<sub>2</sub> — the same measure generally used for allowances. Discounting unnecessarily hampers market efficiency and prevents businesses from using the most cost-effective means to address global warming.

The proportion of offsets that a regulated entity is permitted to use to meet its emission reduction obligations should not be excessively constrained. We believe that the type of quantitative limitations reflected in the RGGI Model Rule, for example, would not be appropriate in California. The economy-wide nature of the AB 32 regime and its much more ambitious reduction commitments make the California market fundamentally different from the RGGI market. In addition, establishing an adjustable quantitative limit on offset use that fluctuates based on the price of carbon, for example, would disrupt the market expectations both for investors in offset projects and for purchasers of offsets. Investors will not be able to judge the demand for their products, and purchasers will be unable to determine in advance how many offsets they can use and thus will be unwilling to make commitments to purchase them.

If California establishes a fundamentally sound offset program consistent with the elements discussed here there will be no need for any such artificial limits. Instead, the proportion of offsets that covered entities use for compliance will be constrained effectively through market forces, given that (a) the supply of offsets will be limited, and (b) the price for offsets will depend in large part on the price of emission allowances.

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**F. California's Offset Market Should Be Linked to Other Carbon Markets.**

The regulatory regime should be integrated as fully as is practicable with other GHG emission reduction regimes, both domestic and international. Both emission allowances and project-based offsets should be tradable among regimes to the maximum extent feasible. Climate change is a global issue. Integration into the global carbon market will reduce compliance costs for Californians and lend California's significant weight to the growing carbon market. To facilitate that linkage, California should avoid measures such as price caps or safety valves on the price of carbon, which will distort the market price for carbon in California and effectively ensure that its market is not well integrated.

The most critical step to ensure the viability of an offset program is the "commoditization" of the product. An offset created at point A must be completely interchangeable with an offset created at point B, and thus readily tradable on a liquid trading platform. A truly robust and liquid offset market will require a technically and economically efficient system for offset registration and trading across different compliance markets.

To achieve this result, California should enter into a Memorandum of Agreement with the RGGI states to establish a linked regulatory regime in which all of the participating states recognize the offsets certified by the others. California also should strive to ensure that any regional regulatory regime developed by the Western Regional Climate Action Initiative is based on the same principles set forth here.

**G. The Project Start Date for Offsets Should Be Established as Early as Possible.**

The project start date for offsets should be set as early in time as practicable and well in advance of the trigger date for GHG emission reductions commitments. Offset projects resulting from early actions can provide a cost-effective means for entities to meet emission reduction targets. Offsets generated by these early projects and the transactions involving them should not be disqualified from participation in the market, provided that they otherwise meet the qualification requirements.

**H. Changes in Regulatory Requirements Should Not Affect Established Offsets.**

If regulatory requirements change so as to affect the qualification of a particular project or project category, the offsets associated with those projects should continue to be qualified for a reasonable period of time to reflect settled expectations. We suggest that offset projects should generally be qualified for an initial period of ten years to provide assurance of value to project developers and limit delivery risk to buyers seeking to meet their emission reduction targets, in part through the use of offsets.

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### III. CONCLUSION.

The challenges of climate change are monumental and confront us all, all around the globe. We all have a role to play in meeting this challenge. We believe the Committee's role is critically important, and that the remarkable breadth of expertise of its members and staff at Cal-EPA promises an excellent and influential work product. We hope that the Committee finds these comments by the Coalition to be helpful. To learn more about carbon offsets, their role in a GHG regime, and the ways that the Committee can tailor its advice to maximize the valuable contribution of carbon offsets, we invite you to visit our website at

[www.carbonoffsetproviders.org](http://www.carbonoffsetproviders.org)

or contact the Coalition through our representative,

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