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Ms. Rajinder Sahota
California Air Resources Board
1001 I Street,
Sacramento, CA 95814
Via web submission

March 8, 2018

RE: COMMENTS ON THE POSSIBLE REVISIONS TO THE CAP-AND-TRADE REGULATION, PRELIMINARY DISCUSSION DRAFT, FEBRUARY 2018

3Degrees Group, Inc. (“3Degrees”) appreciates this opportunity to provide comments to the California Air Resources Board (“ARB”) in response to the *Preliminary Discussion Draft of Potential Changes to the Regulation for Cap-and-Trade, February 2018* (“PDD”). 3Degrees is a leading offset project developer based in San Francisco and has been working with dozens of domestic livestock offset projects to issue credits into ARB’s Cap-and-Trade program.

3Degrees supports the ongoing improvements to the program and would like to offer the following comments in light of our routine interactions with the program from an OPO/APD perspective.

How days are removed when a project is out of Regulatory Compliance

3Degrees greatly appreciates ARB’s 2017 revision to the Cap-and-Trade regulation regarding §95973(b) to allow for removal of noncompliance periods under certain protocols. We have, however, identified problematic language in 95973(b)(1)(E). It dictates that days of noncompliance must be removed out of the “modeled or measured project baselines,” which seems fair except that the days of noncompliance *should also be removed out of the project emissions*. The effect of removing the baseline emissions while including project emissions from the same period inflicts a double penalty to projects. Rather than zeroing out a portion of the reporting period, they will lose even more credits, depending on how big the project emissions rate is:

For example, a project has 5,000 MTCO₂e/month in the baseline and 4,000 MTCO₂e/month in the project scenario, resulting in 1,000 ARBOCs for that month and 12,000 ARBOCs/year. One month of noncompliance should cause the project to lose 1,000 credits. But the language in 95973(b)(1)(E) is causing the project to lose the 1,000 credits from that month *and also* subtract the 4,000 MTCO₂e of project emissions off the reporting period total - in effect increasing the penalty far out of proportion to the intended removal.

This can be easily remedied by revising the language to specify that the days of noncompliance must be removed from metered emission reductions, from the modeled baseline emissions, and from the project emissions. We believe this is what was intended but verifiers have been using a strict interpretation of the language in the Regulation.

Process Improvements & Transparency

The following are suggestions aimed at improving routine processes for issuing offset credits, while increasing transparency where possible.

1. The duration between the issuance of Registry Offset Credits and the start of the 45-day period for ARB to determine the applicable requirements have been met, per §95981(c), should be shortened to the extent practical. We have found the start date of the 45-day period to be unclear and unpredictable, making it difficult to estimate the timing of ARB Offset Credit issuance. It would be ideal for an OPO/APD to expect the 45-day period to begin promptly upon the submittal of a Request for Issuance form and a complete data package, subject to the usual confirmation that all documentation is received.
2. We understand that ARB cannot notify the OPO/APD of determination of Issuance of Offset Credits prior to the public notification every 2nd or 4th Wednesday of the month, but it would be helpful if ARB could indicate to the OPO/APD what stage the review is in at least once during the review process. For example, ARB staff might consider communicating one or two key milestones so that the OPO/APD knows if a project is moving through the process as expected. Transparency at this stage of the process would be very useful information for project owners working on cash-flow projections. Alternatively, ARB staff could communicate to the OPO/APD once a project has moved to the desk of management for final approval. To address both (1) and (2), staff could communicate once they determine that they have received complete and accurate information and are ready to start the clock for their 45 calendar days of review in §95981(c).

Protocol errata and clarifications

While we understand this open comment period is directed toward the Cap-and-Trade regulation itself, 3Degrees would like to take this opportunity to identify a few needed corrections to the Livestock Compliance Offset Protocol. If these cannot be addressed during this revision process, we urge ARB staff to consider opening a future process to address the growing list of needed protocol updates and revisions.

- Section 5.2(e): The site-specific biogas destruction efficiency (BDE) should be optional rather than required every reporting period. While it may be appropriate for some projects to optionally replace default values with site-specific BDE every year, some projects have destruction devices that simply are not listed in table A.6 and it can seem

impractical and costly to routinely engage a third-party stack test on an annual basis solely to meet this protocol requirement. We recommend that the site-specific test results that have been approved by the Executive Officer be allowed in a project's GHG emission reductions/removals for a period of 5 years or more. It is worth noting that the protocol does not specifically mention the need for annual approval.

- Table B.1 specifies that for a missing data period greater than one week the data must be substituted and a zero BDE applied. This is a harsh penalty for projects that continue to destroy methane in the interim and can prove evidence of operational activity but are required to effectively include untrue venting of methane in their calculations. We recommend the substitution methodology allow for a BDE greater than zero when the operational activity can be proved. In our opinion, the 99% lower/upper confidence limit already discounts the number of emission reductions. Perhaps applying a 10% discount to the BDE for uncertainty would be more appropriate than zeroing out periods that can prove continuous destruction.
- Section 6.2(d): Portable instrument calibration requirements should not be specified as "at least once during each reporting period." Rather, the project data should only be considered valid when taken within 1 year of calibration. The difference between these two is subtle but important. The revision would make no difference in terms of the integrity of the reporting, and it would reduce the number of Qualified Positive Opinions issued. It is particularly troublesome to apply this requirement to a device owned and operated by a third-party service provider, who used such a calibrated device just once at a project facility but did not happen to calibrate within the project's reporting period.

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3Degrees thanks you for your ongoing work on the continued improvements to the program. We look forward to continuing to engage with the staff on these issues and will be happy to provide more input as requested.

Sincerely,



Nick Facciola

Director, Carbon Projects