



May 10, 2018

Rajinder Sahota, Asst. Division Chief
Industrial Strategies Division
California Air Resources Board (CARB)
1001 I Street
Sacramento, CA 95814

RE: Presentation at April 26, 2018 workshop and Summary of Stakeholder Comments (submitted following March 2, 2018 Public Workshop on Modifications to Cap-and-Trade Regulation to Comport with AB 398)

Dear Ms. Sahota:

The American Carbon Registry (ACR), a CARB-approved Offset Project Registry (OPR) for the California cap-and-trade program, welcomes the opportunity to offer input subsequent to the April 26, 2018 Workshop to Continue Informal Discussion on Potential Amendments to Cap-and-Trade Regulation and with reference to the Summary of Stakeholder Comments prepared by CARB staff following the March 2, 2018 workshop. ACR joins with the numerous stakeholders that support continuation of a cap-and-trade program that achieves substantial emissions reductions outside of covered sectors. The resulting cost containment fosters sustained public support for California's array of climate programs.

Further to our letter dated March 16, 2018, we would like to emphasize the following points:

- Interpretation of Direct Environmental Benefits in State (DEBS) should be based on the exact words in the statute, as CARB has proposed.
- For water impacts, AB 398 defines DEBS as "...reduction or avoidance of any pollutant that could have an adverse impact on waters of the state." Greenhouse gases (GHGs) are pollutants that adversely impact waters of the state. Therefore, reducing or avoiding them anywhere delivers DEBS. This GHG-water linkage is well supported by the science and is recognized in State policy and plans.
- Offsets from projects listed with an OPR by Dec. 31, 2020 should be deemed to have met the DEBS requirement. Changing the rules for existing offsets would undermine the predictability project developers need to make investments. This could lead to diminished availability of the offsets California will increasingly need if climate action is to be compatible with a strong economy.
- CARB should alleviate the cost burden to smaller businesses in the cap-and-trade program by reducing transaction costs to access emissions reductions outside capped sectors. Specifically, CARB should employ a buffer pool approach for offsets invalidation. This would be akin to an insurance pool that spreads the risk. In this case, the "premium" would be paid as an increase in offset prices that results from a portion of the offsets being diverted to the buffer pool. ACR concurs with the views on invalidation expressed by the Verified Emissions Reduction Association in its comment letter dated March 16, 2018.
- CARB should further define what constitutes grounds for invalidation. ACR suggests that reason for invalidation should be limited to issues that materially compromise quantification of the GHG

reduction. Smaller compliance entities would then be in a much better position to understand and accept the risk.

- Protecting California consumers in years to come will require additional offsets supply. CARB should, therefore, include in the 2018 rulemaking the update of existing protocols and adoption of new ones. Updated and new protocols that clearly comport with even the narrowest DEBS interpretation are readily available. As such, their consideration need not be delayed until the Compliance Offsets Protocol Task Force is established.

In addition, ACR would like to offer input on use of proceeds from sale of allowances at the price ceiling. It is notable that AB 398 employs the precise terminology of offsets in describing the emissions reductions to be achieved with price ceiling revenue: “real, permanent, quantifiable, verifiable, enforceable by the state board and in addition to any greenhouse gas emission reduction otherwise required by law or regulation and any other greenhouse gas emission reduction that otherwise would occur.”

Furthermore, AB 398 directs CARB to achieve emissions reductions “on at least a metric ton for metric ton basis.” If price ceiling revenue is sufficient to purchase more offsets than the number of allowances sold, the legislature has clearly indicated CARB should do so. Indeed, excess offsets could compensate for the additional warming that will occur during the time lag likely between hitting the price ceiling and purchasing offsets.

CARB should create a framework that helps to ensure offsets are available should the price ceiling be reached. While any offsets produced under the compliance protocols should be automatically eligible, the volume of offsets needed may well necessitate reliance on offsets produced under the voluntary protocols of the OPRs. CARB should pre-qualify the OPR protocols eligible to produce acceptable offsets and should, if necessary, delineate additional criteria for project eligibility (e.g. vintage, location). Going still further, ACR suggests that CARB should approve individual projects from which CARB commits to purchasing offsets if the price ceiling is reached, along with a transparent system that creates a queue for the approved projects to deliver offsets. Under such a framework, a project developer that believes the price ceiling will be reached would have the clarity needed to execute an approved emissions reduction project.

We appreciate the opportunity to provide these comments, and we look forward to continued engagement as the process moves forward. If you would like to further discuss our thoughts, please feel free to get in touch.

Respectfully,



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