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California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Offset Protocol Task Force Initial Draft Report

To: Air Resources Board:

Shell Energy North America (US), L.P. ("Shell Energy") welcomes this opportunity to provide comments on the Initial Draft Report ("IDR") of the Offset Protocol Task Force. Shell Energy supports many of the recommendations in the IDR and supports the ARB's consideration and adoption of them in the next rulemaking. Specifically, Shell Energy supports the following recommendations:

<u>Reduced Invalidation Period</u>. The IDR recommends a reduction in the default invalidation period for all offset projects from eight years to three years, upon successful re-verification within three years of credit issuance. Reducing the invalidation period reduces the time risk that prevents some market participants from utilizing offsets. If the risk of invalidation is limited to three years, project developers will have greater certainty as well.

<u>Offset Usage Limit</u>. Allowing entities that did not utilize their allowable offset percentage to sell the balance to other compliance entities is not a new concept and is widely supported. This proposal allows obligated entities of any size to achieve value from the offset program when other risks may have made it cost prohibitive for them to participate historically.

<u>Project Aggregation</u>. The IDR states: "Aggregation of project participants, such as small forest and agricultural landowners, can create efficiencies, reduce costs, and potentially create more interest in innovative financing structures to address the high upfront project costs that create a participation barrier to most small landowners." This recommendation, if adopted, will increase the number of eligible projects in California that are not currently participating in the offset program due to project economics.

<u>Linkage</u>. The IDR recognizes the benefits associated with linkage and encourages the ARB to continue to pursue linkage with Oregon, Washington and New York State, all of which are taking action to address climate change. Linked regional and state allowance trading programs throughout the U.S. would result in lower overall costs due to the ability to reduce

emissions across a wider geographic region. Linkage to other states that include new sources would ensure a consistent carbon price for generation in the linked jurisdictions, thereby eliminating the potential for emissions leakage. This change would ensure a level playing field for similarly situated resources and avoid electricity market distortions.

New Protocol Development. The IDR supports developing new offset protocols for wetlands and grasslands. Shell Energy agrees with the IDR that expanding the number of approved offset protocols results in both direct and co-benefits. “In California for example, almost 75% of offset project are located in economically disadvantaged areas, providing jobs and lowering pollution loads of neighboring residents.”

These benefits should not be limited to projects within California’s borders, however. As Shell Energy noted in previous comments, tribal authorities have established offset projects that provide economic benefits to tribal communities located within and outside California. These tribal initiatives should be supported by allowing both in- and out-of-State offset projects sponsored by tribal authorities to demonstrate compliance with the DEBS.

In conclusion, Shell Energy supports many of the IDR recommendations and encourages the ARB to include them in an upcoming rulemaking.

Sincerely,

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