December 16, 2016 | Submitted Electronically

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

Ad Hoc Offsets Group-- Comments on 2030 Target Scoping Plan Discussion Draft

Thank you for providing the opportunity to comment on the December 2, 2016 "Discussion Draft" of the 2030 Target Scoping Plan Update. The Discussion Draft is a significant policy document with long-lasting impacts on the Post-2020 program. We appreciate the efforts of ARB staff in analyzing multiple alternative scenarios in response to recently passed legislation to update the existing comprehensive Plan to meet the State's ambitious climate goals.

These comments are submitted on behalf of the Ad Hoc Offsets Group (Offsets Group), made up of 11 businesses implementing projects that go beyond business as usual that are enabling California to cost-effectively achieve its greenhouse gas (GHG) emission reduction goals. Members include A-Gas Group, Blue Source, Camco International Group, ClimeCo, Diversified Pure Chem, EOS Climate, Origin Climate, Tradewater, The Climate Trust, Vessels Coal Gas, and Verdeo. Each Offset Group member is an active participant in the California Cap-and-Trade program and have collectively registered millions of tons of verified GHG reductions under ARB-approved protocols including: Forestry Management, Mine Methane Capture, Livestock Methane Capture and Destruction of Ozone Depleting Substances (ODS).

There are many important and far-reaching aspects of the Discussion Draft that have potential to either strengthen or dilute California's effectiveness in mitigating climate change and protecting public health. both in-state and globally. The comments provided here are only focused on the following policy considerations critical to both continued operations of the Offset Group's member businesses and we believe, the continued success of California's climate program:

1. The existing Cap and Trade Program, with complementary policies and offsets is achieving its goal of reducing GHG and co-pollutant emissions;
2. The creation and use of offsets satisfies AB 197's requirement that ARB prioritize direct emission reductions from sources other than "large stationary and mobile sources" of GHG emissions;
3. There are numerous environmental, economic and policy benefits associated with the inclusion of a robust offset regime within the Cap-and-Trade program that benefit all Californians, including the State's disadvantaged communities.

4. Any reduction to the offset usage limit would not be justified and would be counter-productive to meeting the program's goals;

The Existing Program Design is Working

The original 2008 Scoping Plan laid out a far-reaching strategy of voluntary measures, new command and control regulations and a variety of incentives all aimed to reducing GHG emissions while achieving co-benefits from reductions in other air pollutants. In addition to meeting aggressive goals on renewable energy, fuel economy, and Low Carbon Fuels, California is on pace to meet its GHG targets; between 2004 and 2014, total GHG emissions in California declined by 9.4%. Equally impressive is the 28% economy-wide reduction in carbon intensity since 2001 while the state's GDP grew by the same amount (28%) over the same period.

In parallel, there has been a significant decline in criteria air pollutants that in many cases are emitted along with CO_2 and other GHGs.[1] For example, across the state from both stationary and mobile sources, between 2005 and 2013, $PM_{2.5}$ levels have dropped nearly 20%, nitrogen oxides have dropped by 41%, and sulfur oxides have dropped by 73%. In addition to the criteria air pollutants, California is regulating almost 200 toxic air contaminants, with over 30,000 facilities that report emissions, with focused monitoring of high risk "hot spots".

These trends are in line with California having the most stringent air pollution regulations in the world, with an extensive monitoring and enforcement program that covers both large and small sources. Given the fact that any regulated entity covered under the Cap-and-Trade program is subject to a constellation of rigorous air pollution controls, we see no rationale, or basis, for the assertion that the program, and specifically offsets, can in any way result in increased emissions of non-GHG pollutants.

ARB's Current Offset Program Satisfies the Requirements of AB 197

The Discussion Draft proposes "Evaluating further limiting of offsets" under a post-2020 Cap-and-Trade scenario. This recommendation is justified in the document by citing the recently adopted AB 197[2]. But the key paragraph in the Discussion Draft only cites *half* of AB 197's mandate. We note that Section 5 of the bill requires that ARB "prioritize ***both*** of the following" [emphasis added]:

> (a) Emission reduction rules and regulations that result in direct emission reductions at large stationary sources of greenhouse gas emissions sources and direct emission reductions from mobile sources.
>
> (b) Emission reduction rules and regulations that result in direct emission reductions from sources other than those specified in subdivision (a).

Subsection (b) is essentially a real-world description of what an offset actually is—the direct emission reduction from a non-covered entity (large stationary sources and/or mobile sources). As such an offset has no negative effect on reducing emissions in California as ARB mandates direct reductions of emissions regardless of the volumes of offsets produced. In fact, the current Cap-and-Trade Regulation defines "Direct GHG Emission Reduction" as "a GHG emission reduction from applicable GHG emission

[1] Estimated Annual Average Emissions (2013) https://www.arb.ca.gov/app/emsinv/2013/emseic1_query.php?F_DIV=-4&F_YR=2012&F_SEASON=A&SP=2013&F_AREA=CA
[2] https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160AB197

sources, GHG sinks, or GHG reservoirs that are under control of the Offset Project Operator or Authorized Project Designee."[3] Similarly, the regulatory definition of an "Offset Project" can be summarized as an action "directly related to or having an impact upon GHG reductions".

While it is appropriate for ARB staff to evaluate many different options, we strongly disagree with the premise that the current offset usage limit needs to be reduced. In fact, we urge the staff to evaluate the environmental and economic benefits associated with increasing the current limit of 8% based on the clearly positive outcomes achieved to date.

The Environmental, Economic and Policy Benefits Associated with Offsets

There is a myriad of reasons why offsets were included in the original design of the AB 32 program, and there is no argument that a valid offset is anything but a real GHG emission reduction. The Offset Group highlights the following benefits of retaining the current status quo on the Offset Usage Limit.

Environmental Benefits-

- Rigorous standards and verifications that insure real and permanent GHG reductions
- Reductions that would not otherwise be achieved under the Cap-and-Trade program
- Creates ripple impacts of other public health and environmental benefits that can include:
  - Water savings
  - Improved water quality
  - Habitat improvement
  - Reduced odors from uncontrolled releases of methane
  - VOC reductions

Economic Benefits-

- Creates jobs and economic activity in disadvantaged communities
- Creates jobs and economic activity in rural and tribal communities
- Reduces the overall program costs, which by design are intended to pass through to California's citizens, by an estimated $1 Billion through 2030
- Mobilizes investments in clean technologies developed by California companies
- Mobilizes investments in sectors outside those covered under the GHG permitting program
- Improves the economic stability of California dairy operations that are subject to drastic swings in the milk market

Policy Benefits-

- Facilitates linkages with other jurisdiction's climate programs
- Provides for both local in-state and out-of-state GHG reductions
- Allows for additional GHG reductions
- Provides flexible and ubiquitous cost-containment mechanisms
- Provides incentives for innovation and investments

[3] https://www.arb.ca.gov/cc/capandtrade/capandtrade/unofficial_ct_030116.pdf [Definition #102]

Summary

California's program advanced this policy idea which has successfully been exported throughout North America. Changing policy direction at this stage of implementation would be disastrous to those who have committed to the program through innovation and capital. It also would send the wrong message to a world that is watching California's every move. The Offset Group is ready and available to discuss these issues with staff, EJAC members, the Legislature or ARB Board members as needed. Thank you for your time and consideration.

Sincerely,

/s/

Ad Hoc Offsets Group Members