



ClimeCo Corporation  
environmental market solutions

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October 27, 2017

Richard Corey  
Executive Officer  
California Air Resources Board  
1001 I Street  
Sacramento, CA 95814

**Re: Offsets in the California Cap and Trade Program**

Dear Mr. Corey:

This letter is submitted to express ClimeCo Corporation's strong support for California's efforts to reduce statewide greenhouse gas (GHG) emissions through a market-based program, including the use of high-quality carbon offsets. Offset projects developed as a result of California's program have reduced GHG emissions, provided many environmental co-benefits, and stimulated new technologies and practices. In addition to these direct benefits at each project site, the projects have supported equipment manufacturers producing advanced engineering and monitoring technologies, and produced employment at verification firms and registries. CARB's offset market is creating jobs with specialized skills and generating local revenue in California, including in disadvantaged communities.

As your staff highlighted in a recent workshop,<sup>1</sup> there are several important questions to be addressed associated with the offset program in the upcoming rulemaking. CARB's implementation of the Program is also highly influential with other jurisdictions, including both linked and potential linked partners. Therefore, we encourage the upcoming rulemaking to focus on improving the offset program as it implements the recent legislation. Now is an excellent opportunity to continue to move this aspect of the Program forward.

ClimeCo is pleased to offer two specific comments with respect to the offset program:

- 1) "Direct Environmental Benefits" should be defined broadly in order to maximize benefits associated with offsets, and recognition should be given to projects or portions of projects that impact the state, regardless of their location as defined by the program rules.**

Section 38562(c)(2)(E)(ii) states:

For purposes of this subparagraph, "direct environmental benefits in the state" are the reduction or avoidance of emissions of any air pollutant in the state or the reduction or avoidance of any pollutant that could have an adverse impact on waters of the state.

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<sup>1</sup> [https://www.arb.ca.gov/cc/capandtrade/meetings/20171012/ct\\_presentation\\_11oct2017.pdf](https://www.arb.ca.gov/cc/capandtrade/meetings/20171012/ct_presentation_11oct2017.pdf)

To ensure a robust offset market in California's Cap and Trade Program we urge CARB to not be overly prescriptive in defining "direct environmental benefits in the state." The implementation must be sufficiently broad in order to capture as many environmental benefits for the state as possible and to not further limit the supply of eligible offsets.

One clear example includes the projects creating GHG reductions today in California under the current Ozone Depleting Substances (ODS) protocol. These projects collect ODS in California, before having the material aggregated and transported out-of-state for destruction. Currently, a quirk of the program rules tends to define these projects as having occurred in Arkansas or Ohio, where RCRA facilities are located, but this location designation does not tell the whole story of where the ODS was collected. These projects yield significant in-state benefits by the removal of these powerful gases, which by definition are "pollutants." This example clearly meets the spirit of this provision.

ODS materials collected in California are collected in facilities such as Appliance Recycling Centers of America's (ARCA) facility in Sante Fe Springs, where ARCA removes ODS from appliances at end of life. ARCA's facility endeavors to responsibly recycle the appliances, reducing landfilled waste, and preventing the release of other toxics in the appliances. Such efforts should be recognized as providing direct environmental benefits to the state, even if portions of the comprehensive destruction project occur outside of California. ClimeCo asks ARB to consider allowing project developers to quantify the ODS in each project which originates in CA, and to allow a retroactive look at this issue as well for already issued CCOs, and to create an accounting system that would allow for a portion of the reporting period's CCOs to be designated as meeting the "Direct Environmental Benefits" standard.

## **2) The Invalidation Process and Policy Should be Revised**

ClimeCo believes that ARB should reflect on the amazing success of the offsets program to date, and take this opportunity to re-visit the invalidation provisions in the regulation. To date, less than 1/10<sup>th</sup> of 1 % of all CCOs have been invalidated. The current invalidation rules appear to be a solution without a problem, and lest we believe that the current rules have prevented invalidation issues, it is important to remember that under the current system, most developers sell CCOs to third-parties without invalidation guarantees, effectively avoiding any responsibility whatsoever under the current system and passing the risk onward. The current invalidation concept significantly increases the cost of offset credits, and that cost is ultimately passed along to California's ratepayers. Added program costs hit residents in low-income communities the hardest. In light of the success of the Program and the rigor involved in the multi-stage review and verification process, we recommend two options to address the concerns previously addressed by the invalidation provisions:

- Adopt the Ontario model with 3 percent of issuances retained in an "environmental integrity account." This pool would be used to cover instances of invalidation only in cases where enforcement against the OPO is not possible. OPO's could be barred from further participation in the program if they fail to replace invalidated credits. OPOs would gladly contribute 3 percent of their offsets to this pool to avoid the complexities and deadweight losses created by the three-tiered CCO8/CCO3/GCCO framework currently in place. The Governor's Transmittal Response to

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CARB on Findings under SB 1018 endorses this approach to invalidation, writing: "While Ontario uses a different mechanism to correct any failure or invalidation of an offset, the approach is equally effective...both protect the program in the event that an offset is invalidated."

- If CARB chooses not to adopt the recommendation above, then it should eliminate the CCO8 concept to simplify the market, especially in light of the additional bifurcation forthcoming for offsets with direct environmental benefits. All CCOs should initially be issued with a 3-year invalidation period. No second regulatory verifications would occur. This would simplify the CARB issuance reports, reduce developer costs, reduce CARB staff and Registry costs, and would help to allow smaller emitters to access the offset mechanism.

Thank you very much for the opportunity to comment.

Sincerely;

ClimeCo Corporation

A handwritten signature in blue ink, appearing to read "D. Six", is written over the printed name of the sender.

Derek Six  
Senior Vice President