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To: Rajinder Sahota, Chief
Climate Change Program Evaluation Branch, Industrial Strategies Division
California Air Resources Board, 1001 I Street, Sacramento, California 95814
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IETA COMMENTS ON CALIFORNIA AIR RESOURCES BOARD'S PROPOSED SHORT-LIVED CLIMATE POLLUTANT (SLCP) REDUCTION STRATEGY

The International Emissions Trading Association (IETA) welcomes the opportunity to share comments on California Air Resources Board (ARB)'s Proposed Short-Lived Climate Pollutant (SLCP) Reduction Strategy. We continue to support California's use of market tools and cooperation with other jurisdictions to reach environmental goals at least-cost, along with the State's policy leadership shown in targeting this important subset of climate pollutants. IETA's comments reflect our priority considerations and input focused largely on ARB's proposals to reduce methane emissions (dairy) and HFCs.

PRIORITY CONSIDERATIONS

A. Cost-Containment as a Guiding Principle

California's ambitious proposed SLCP targets will require significant, cross-sectoral accelerations in deep emission reductions. In order to meet these goals and minimize cost burdens for California businesses and residents, ARB must employ the suite of policy tools at its disposal with maximum effectiveness and efficiency. Consequently, cost-containment should be a key guiding principle as ARB decides on final policy instruments and mechanisms to reach California's SLCP goals.

B. Benefits of Offsets

Broad access to eligible offsets is a core component of California's cap-and-trade program. Offsets represent an important cost-containment tool that should be encouraged, rather than hindered, in ARB's SLCP Reduction Strategy. Enabling wide access to offsets in the SLCP Strategy would leverage market forces and attract private sector investment and innovation to achieve reductions that are otherwise difficult to reach. In order to maximize cost-effectiveness in reaching ARB's SLCP goals, relevant offsets (e.g. digester offsets) should not be eliminated as compliance options. Instead, Staff should take advantage of California's existing offset protocols available.

We have fundamental concerns about ARB's proposal to regulate methane emissions from dairy and eliminate digester offsets as potential compliance instruments in California's cap-and-trade program. We strongly encourage ARB to stay the course and use its already-defined targets to justify existing program improvements and stronger mechanisms upon which these projects currently rely.

IETA appreciates ARB's desire to see rapid progress in reducing emissions from the dairy digester sector. **However, the proposed approach appears to undermine the policy mechanisms that California has spent the last decade putting in place**, and which are starting to show progress as investors gain more confidence in the bankability of offsets and credits generated by such projects[1]. To change direction *mid-stream* from an existing market-led approach to a future regulatory-driven approach – especially in the face of significant post-2020 uncertainty – will ultimately discourage further progress and clean private investment into the sector. These potential impacts and more are further examined below.

A. Cap-and-Trade Program Impact

Eliminating digester offsets has the potential to hinder market-effectiveness and reduce compliance flexibility by shrinking the pool of available offset credits. IETA urges Staff to carefully consider, as well as assess, the impact of regulating dairy methane emissions on California's cap-and-trade program. This is an especially important consideration given that program cost-containment and flexibility are set to become increasingly critical tools for achieving California's ambitious post-2020 climate targets.

B. Leakage Considerations

Because methane is a global pollutant, ARB must consider the overall effect on methane emissions through an analysis of the potential leakage that could occur. ARB has an intelligent track-record of putting measures in place for industries that may leave the state due to carbon pricing asymmetries with other jurisdictions. As has been done in other sectors, ARB must carefully consider the leakage effects of regulating methane emissions across California dairies. This consideration is particularly timely, given the current updates being made to leakage assumptions for the post-2020 cap-and-trade program.

Most of ARB's recent methane initiatives have focused on reducing regulatory burden in order to increase the penetration rate of digesters in California. **The increased regulatory constraints, currently proposed by ARB, could in fact heighten leakage risks by encouraging more dairies to relocat**e to states with less regulatory constraints. At the same time, by eliminating the only compliance market for digester offset credits in the United States, ARB would significantly reduce the incentive to build digesters outside of California – projects that rely on generating and selling California Carbon Offsets to be financially viable.

[1] *As an example, consider the successful award of $11 million in 2015 to digester projects by the CDFAs dairy digester program.*

C. Offset Investor Impacts

IETA applauds ARB's continued clarity that existing projects can "live out" their 10-year crediting period, creating essential investment certainty for project developers and operators. The inclusion of digester offsets as compliance tools in the cap-and-trade program has improved the financial viability of these projects and has helped keep these investment projects in California. It takes time, however, for developers and operators to become comfortable with the risks and benefits associated with this new revenue stream. **Continued availability of dairy digester offsets would generate incentives for this discovery process to continue**. Changing course and eliminating them as compliance tools risks undermining the progress already made which could in turn decrease developers' overall willingness to invest in other offset projects in California.

Should ARB move forward with its intended elimination of digester offsets, we request that ARB provide a specific indication, as early as possible, about how long this offset sector will remain eligible. Investors in offset projects commit resources to allow for replication of multiple investments across the same sector. Therefore, clarity must be provided with respect to the timeframe for the eligibility of this offset sector. This vital information will enable investors to make informed business and investment decisions.

D. Financial Feasibility of Digesters

The Proposed SLCP Strategy acknowledges that significant investments will be required to build and operate the infrastructure needed to capture large quantities of dairy digester methane. According to the plan, "CalRecycle and CDFA both estimate that direct investments or incentives on the order of $100 million per year for five years could significantly scale project development to cut SLCP emissions associated with dairy manure and waste management."[2]

ARB's analysis assumes that market mechanisms, in particular the Low Carbon Fuel Standard (LCFS) and Renewable Fuel Standard (RFS), will continue to 2030. Unfortunately, investors in these projects do not have that luxury. **Investors are currently faced with significant uncertainty** on: RFS program from 2022; LCFS program post-2020; and prospects that California's offset program may not continue past 2020 (and if it does that offset from digesters will no longer be eligible once a regulation takes effect around 2025).

At a minimum, IETA believes that any assessment of the feasibility of implementing regulations should consider the scenario where market mechanisms are no longer available and/or do not provide long-term financial revenues post-2020. Removing future carbon revenue streams will paint a very different and challenging picture regarding the financial viability of digester projects.

[2] California Air Resources Board (ARB), 2016. *Proposed Short-Lived Climate Pollutant Reduction Strategy*, pg. 27.

A. Refrigerants

The bulk of ARB's projected HFC emission reductions are linked to proposed measures that will have uncertain practical and efficacy-related impacts. For example, California's ability to effectively implement and enforce "a phasedown in HFC supply"[3] would require border controls to distinguish refrigerants that are impossible to differentiate without sophisticated laboratory equipment, thereby forcing liability on refrigerant distributors and HVAC technicians (who are typically small businesses).

Similarly, the proposed measure to prohibit "new equipment with high-GWP refrigerants"[4] would be difficult, if not impossible, for ARB to enforce. Both of these measures would encourage "underground" movement and transactions of HFCs and HFC-based equipment in California. Further, the U.S. EPA's SNAP regulatory revisions, which hare already in place, clearly establish phase-out schedules for the use of high-GWP HFC refrigerants in air conditioning and refrigeration applications.[5] The federal regulations were developed based on a comparative assessment of safety and health risks, energy efficiency, environmental impacts, and other considerations. These rules were only finalized after extensive public input from chemical/equipment manufacturers and refrigerant end-users who are already taking aggressive steps to transition out of HFCs in new applications wherever practical. Given ARB's limited resources and ambitious targets, creating a separate phase-down schedule would be inefficient as well as confusing to industry and consumers.

Finally, ARB should consider initiating a review to adopt ACR's methodology applying to reclaimed HFC refrigerants. Reclaiming HFC refrigerants that are recovered from end-of-life equipment for re-use displaces new production of HFC refrigerants, thereby preventing additional, unnecessary GHG emissions. Other than reducing allowable leak rates, much of the focus of the EPA and ARB's efforts on mitigating the impacts of HFC emissions are on phasing-out new production or use of HFCs in new equipment. Via this protocol, California has an opportunity to potentially transform the industry and significantly increase reclamation and re-use of HFCs that will have significant and immediate climate benefits.

B. Leveraging Existing Offset Methodologies

Peer-reviewed offset methodologies that address SLCP's are available today, including those used to address HFCs, a large category of SLCP emissions. By unlocking the potential of these new methodologies, ARB could swiftly and cost-effectively accelerate California's efforts to reduce these pollutants, while aligning implementation of its SLCP Strategy with its stated intention to foster market forces.

[3] *Ibid,* pg. 88.
[4] *Ibid*, pg. 86.
[5] 80 FR 42870; July 20, 2015.

Regarding Section A of the Proposed Strategy, **ARB should consider adopting ACR's recently published methodology**, **"***Use of Certified Reclaimed HFC Refrigerants and Advanced Refrigeration Systems Methodology***"**[6] **under the cap-and-trade program**. This quantifies greenhouse gas emission reductions associated with deployment of the same kind of low-GWP refrigeration systems described in ARB's strategy. However, instead of direct payments from a state-fund to a limited number of California supermarkets, compliance offsets harness market forces while driving additional early reductions.

Also for inclusion in the cap-and-trade program, we urge ARB to consider ACR's "*Emission Reduction Measurement and Monitoring Methodology for the Transition to Advanced Formulation Blowing Agents in Foam Manufacturing and Use***" methodology**. This new methodology, issued in April 2016, addresses the replacement of HFC blowing agents with low-GWP blowing agents.[7] Not only does the protocol incent early action, but it also rewards manufacturers for moving away from the use of any HFCs – even those gases that are still permissible by US EPA. According to its associated Peer Review study, this methodology has the potential to generate hundreds of thousands of offset credits annually, as it applies to a wide range of foam manufacturing processes with very low market penetration.

These existing offset methodologies would clearly complement ARB's proposed strategy by helping to drive considerable SLCP reductions and engage private sector. From IETA's perspective, these are exactly the types of cost-effective measures that ARB should consider incorporating into its final SCLP Strategy.

In Conclusion

We appreciate this important opportunity to share IETA's comments related to ARB's Proposed SLCP Reduction Strategy. Our multi-sector business membership remains committed to supporting the successful evolution of flexible market solutions to help achieve California's ambitious climate goals. If you have questions, or require further information, please contact IETA's Director of the Americas & Climate Finance, Katie Sullivan (**sullivan@ieta.org**).

Sincerely,

Dirk Forrister
IETA President and CEO

[6] American Carbon Registry (ACR). *Use of Reclaimed HFC Refrigerants and Advanced Refrigeration Systems.*
[7] ACR. *Emission Reduction Measurement and Monitoring Methodology for the Transition to Advanced Formulation Blowing Agents in Foam Manufacturing and Use.*