



October 19, 2015

Rajinder Sahota, Branch Chief, Cap-and-Trade Program
California Air Resources Board (ARB)
1001 I Street
Sacramento, CA 95814

RE: Potential 2016 Amendments to Cap-and-Trade Regulation

Dear Ms. Sahota:

The American Carbon Registry (ACR), an ARB-approved Offset Project Registry (OPR) for the California cap-and-trade program, welcomes the opportunity to offer input on amendments to the cap-and-trade regulation. Our comments herein focus specifically on enabling the market to maximize use of the offsets limit, commensurately optimizing cost-containment, as well as environmental and social co-benefits.

As currently structured, each compliance entity is individually allowed to surrender no more than 8% of compliance instruments as offsets. This inherently impairs the ability of the market as a whole to make full use of the offsets limit. For companies with small compliance obligations, the financial costs to be well informed, conduct proper due diligence, and enter into contract outweigh the savings that could be realized by using offsets. However, as you are aware, the 8% limit was established to ensure that no more than half the *aggregate* reductions would be derived from offsets. We believe that amendments to the regulation can allow this intent to be met without adding undue complexity to ARB's oversight responsibilities.

Our suggestions are as follows:

- 1) Allow unused offset quotas to be rolled over from one compliance period to the next. Fully unused, a compliance entity's offsets limit of 8% in one compliance period would increase to 16% in the next compliance period, 24% in the next, and so on. While the limit of 8% is too small to make it worthwhile for many compliance entities to make use of offsets, it may well make sense to do so with a higher limit.

A threshold compliance obligation should be established. Only entities with emissions below a specified limit should see their unused offsets quotas carried forward. This would target the solution appropriately, while averting the potential that those with larger compliance obligations could, in an environment of diverging allowance and offset prices, choose to carry forward large offset quotas. Following the November 2015 surrender event, we will have data from a full compliance period to inform a determination of what the threshold should be.

For simplicity, the rollover of unused offset quotas should be automatic. There is no compelling reason a compliance entity should have to elect to carry forward unused quota, nor would actively managing the process be a useful burden to add to ARB's workload.

- 2) Allow offset quotas to be transferred between compliance entities. Those compliance entities most interested in using offsets should be able to purchase offsets quotas from those that do not wish to make use of them. Quota tracking could be integrated into the Compliance Instrument Tracking System Service (CITSS). Perhaps one model could be to establish for each compliance entity an “offsets quota account.” Offsets could not be surrendered in excess of available quotas. Upon surrender of offsets, a corresponding quota volume would be canceled. We encourage ARB to explore how CITSS could be modified to maximize simplicity for both ARB and compliance entities.

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 these suggestions or any other modifications affecting offsets, please feel free to get in touch.

Respectfully,



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