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Ad Hoc Offsets Group-- Comments on 2030 Target Proposed Scoping Plan

Thank you for providing the opportunity to comment on the January 20, 2017 Proposed 2030 Target Scoping Plan Update. The Proposed Plan is an important policy document with long-lasting impacts on California's Post-2020 climate change emission mitigation program.

These comments were drafted and are submitted by the Ad Hoc Offsets Group (Offsets Group), made up of 13 offset developers focused on providing the State of California with additional, real, quantifiable, verifiable and enforceable greenhouse gas (GHG) reductions. Each Offset Group member is an active participant in the California Cap-and-Trade Program and along with other offset providers have collectively certified over 54 million tons of validated GHG reductions under the following ARB-approved protocols: Forestry Management, Mine Methane Capture, Livestock Methane Capture and ODS destruction.

Though there are many important and far-reaching aspects of the Proposed Plan, the Offsets Group is limiting its comments to the following points:

1. The existing Cap and Trade Program, with complementary policies and offsets is achieving its goal of reducing GHG and co-pollutant emissions;
2. Reversing policy related to offsets would constrain investment in California businesses and technology innovations, and make the 2030 goals more difficult and more expensive to meet.
3. 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, therefore evaluation of a lower offset usage limit is not required;
4. 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 Californian's, including the State's disadvantaged communities.

The Existing Program Design is Working

To date ARB-eligible offset projects—meeting the world's most stringent verification requirements—have reduced actual greenhouse gas emissions from 260 projects across the U.S. Importantly, 16 million credits across 54 projects were developed from project activities in California, 22 of which occurred in disadvantaged communities in California. These offset project activities not only prevent or sequester greenhouse gas emissions in California but also spur technology innovation and provide economic benefit to California residents. In addition, there are many more projects, and methodologies, in the development queue that could provide in-state benefits.

Offsets have proven to be a key policy mechanism that achieves numerous complementary and critical GHG policy goals, including:

- Delivering real, permanent, verifiable emission reductions;
- Reducing the costs of the overall program to California businesses, ratepayers and consumers;
- Promoting innovation in environmental technologies and natural land practices;
- Providing a mechanism that enables linkages with other jurisdictions; and
- Reinforcing California's vision and leadership across the country and beyond.

Today California stands at the forefront of emission reduction technologies and innovation, due in no small part to the vibrant carbon offsets market it has created. From equipment manufacturers producing advanced engineering and monitoring technologies to providers of robust verification services, ARB's offset market is creating jobs with specialized skills and local revenue right here in California. This outcome was anticipated in the drafting of AB 32 as its Findings and Declarations state: "National and international actions are necessary to fully address the issue of global warming. However, action taken by California to reduce emissions of greenhouse gases will have far-reaching effects by encouraging other states, the federal government, and other countries to act."

AB 32 also requires the maximization of cost-effective GHG reductions, and offsets help achieve that mandate. When ARB evaluated the cost impacts of the program prior to its start in 2013, it concluded that without offsets and other complementary policies, program costs could be as much as five times higher. From the beginning, ARB and a wide variety of stakeholders recognized that having an offset component supports the development of new innovative projects and technologies. These innovations have played a key role in reducing emissions both inside and outside California.

Offset projects are providing local environmental and economic benefits to the neighborhoods in which they are located, many of which are developed in disadvantaged communities by California-based companies. These benefits include new opportunities for organizations and enterprises to generate revenue and employment.

Changing Course Would Threaten 2030 Goals

The updated Scoping Plan, including the current offset usage limit, is designed to meet the 2030 goal of reducing GHG emissions 40% below 1990 levels. The removal or reduction of offsets would be a major policy reversal after only a few short years in which hundreds of millions of dollars have been successfully invested to better the environment, and it would limit California's GHG policy options while increasing costs to achieve statutory goals. Reduction of GHG emissions in California through a market based program and use of offsets is complementary to, and does not exclude reduction of other pollutants.

Since the inception of AB 32, California has demonstrated quantifiable reductions in GHG, criteria and toxic air pollutants. 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 reduced GHG and achieve co-pollutant benefits. Those programs are really just getting started but have shown that they are achieving their goals. California is on pace to meet its 2020 GHG, renewable electricity, Low Carbon Fuel Standard and other emissions related goals. 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.

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

We are pleased to see that staff is not recommending any changes to the Offset Usage Limit. As we have commented previously, this is the right policy choice and it does satisfy the recently adopted AB197. That bill has two components in its mandate to ARB. The Offset Group notes that Section 5 of the bill requires that ARB "prioritize both of the following":

> (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 actually a real-world description of an offset — the direct emission reduction from a non-covered entity (large stationary sources and/or mobile sources). In fact, the current Cap-and-Trade Regulation defines "Direct GHG Emission Reduction" as "a GHG emission reduction from applicable GHG emission sources, GHG sinks, or GHG reservoirs that are under control of the Offset Project Operator or Authorized Project Designee."[1] Similarly, the regulatory definition of an "Offset Project" can be summarized as an action "directly related to or have an impact upon GHG reductions".

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

The Environmental, Economic and Policy Benefits Associated with Offsets

There are a myriad of reasons offsets were included in the original design of the AB 32 program and multiple benefits in retaining the status quo on the Offset Usage Limit:

Environmental Benefits-
- Real GHG Reductions
- Rigorous accounting and verification
- Reductions that would not otherwise be achieved under the CT program
- Creates ripple impact of other benefits
  - Water savings
  - Improved water quality
  - Habitat improvement
  - Energy efficiency

Economic Benefits-
- Creates jobs and economic activity in disadvantaged communities
- Creates jobs and economic activity in rural and tribal communities
- Reduces the overall program compliance costs which translate to estimated savings for California citizens over $1 Billion dollars through 2030.
- Provides incentives for capital improvements

Policy Benefits-
- Allows for additional reductions that can exceed base level targets
- Provides cost-containment mechanism needed to sustain the overall program
- Provides incentives for innovation and investments
- Provides mechanism for program linkages with other jurisdictions

Summary

Reversing course on offsets would undermine both California's climate leadership—in North America and globally—and the credibility of the Program. In addition, such a major policy change would reduce economic activity in California's disadvantaged communities while increasing compliance costs to California-based employers and ratepayers.

For the reasons provided here, we strongly support the continued inclusion of a robust offset policy in California's efforts to achieve cost-effective GHG reductions through 2030. Thank you for your time and consideration. The Offset Group is ready and available to discuss these issues with staff, EJAC members, or ARB Board members as needed.