



July 13, 2010

Offsets and Linkage Workshop
Climate Change Program
California Air Resources Board

As a California-based company, CE2 applauds the California legislature and CARB for their efforts in seeking to provide a feasible market-based solution to reducing emissions in the state of California. Since its founding in 2005, CE2 has become one of the largest U.S.-based investors focused on global environmental markets and is keenly interested in the implementation of a well-structured environmental market in California. CE2 has closely followed the role offsets have under AB 32, as CE2 is actively involved in the financing and development of offset generating projects that could contribute to the emerging California system. We believe that offsets are an important component of cost containment in a cap-and-trade system, and can help to develop a market mechanism that is viable over the long term.

Outlined below are several comments on the proposal presented by CARB regarding the development and use of offsets under AB 32:

Early Action

It appears that CARB is leaning toward only accepting CAR credits issued in CA under three voluntary protocols: Forestry 2.1 and 3.0, Livestock 2.0, and Urban Forestry 1.0 for early action. CE2 would like to take this opportunity to caution the agency about the effects that limiting the supply of offsets will have on California's ability to meet its targets in the most cost-effective manner. Given the limited supply of offsets that CARB is projecting for 2012-2014, there is the real risk that CARB's current thinking on early action may not be sufficient to produce a robust offset supply. We believe that in order to encourage early investment in offset projects, CARB should expand the geographic boundaries for early action to all of North America and include ozone depleting substances (ODS), landfill methane, and coal mine methane as eligible early action credits. All of these project types have scientifically rigorous protocols in existence with multiple registries, and should provide a more robust offset market without sacrificing environmental integrity.

CARB has also indicated that it will accept vintages from 2005-2014 as eligible early action credits. Additional clarity on how project start dates will align with these vintages would be very helpful. Given that CAR allows as eligible projects with start dates beginning in 2001, we advocate staying consistent with CAR in order to provide stability to the market.



Additional Linkage Opportunities

CE2 suggests that CARB consider linking to non-CAR voluntary programs, such as the Voluntary Carbon Standard and the American Carbon Registry. These registries have matured and are in the process of developing methodologies through rigorous public comment and scientific peer review processes, and have established public registries that are widely accepted in both the scientific community and the marketplace. This would also help to mitigate the risk of an under-supplied offset market which could ultimately undermine the goals of AB 32.

Crediting Periods

With respect to linkages with other programs or early action, we believe that CARB should ensure that such projects are recognized for the full length of their existing crediting period. This would provide the clarity that the market requires in order to make investment decisions now that are expected to generate revenues over the next 10 to 30 years.

Liability for Offset Credits

The risk of reversal is most prevalent in forestry carbon projects. We believe that the liability should fall with the ownership and control of the timber, whether it is held directly through the landowner or contractually through another party. Buyers and developers will have little incentive to invest in forestry projects if the liability falls back to them when they do not hold the timber rights or control the land. Instead, they will pursue projects with more certain emissions reductions, such as agricultural methane and ODS.