



July 12, 2010

Mary Nichols, Chairman
California Air Resources Board
1001 "I" Street
Sacramento, CA 95812

Dear Chairman Nichols,

The Climate Action Reserve (Reserve) is very appreciative of the tremendous resources, energy, and intellect that the California Air Resources Board (ARB) staff has put into the development of a cap-and-trade program for the State of California. The Reserve offers these comments in full recognition that ARB has a clear mandate to ensure that any offsets program meets the state's regulatory needs and that ARB must have a clearly defined ability to oversee and enforce the offsets program.

Use of CRTs for Compliance: As the state's cap-and-trade program is launched in 2012, ensuring a robust supply of verified emission reductions is critical to ensuring adequate liquidity and avoiding the risk of shortages and price spikes. We urge ARB to recognize for compliance purposes all existing and future Climate Reserve Tonnes (CRTs) for any project registered with the Reserve. AB 32 specifically encourages actions to reduce greenhouse gas emissions and it is exactly this kind of early action on climate change that formed the Climate Action Reserve's mission when it was created by the state. We do not believe that the imposition of artificial and unnecessary limits on the use of issued and future CRTs for compliance purposes is consistent with this clear legislative intent to encourage greenhouse gas emission reductions.

Protocol Approval: ARB should use all of the Reserve's protocols without modification, to the maximum extent possible. The Reserve's protocols have been developed with broad stakeholder input, *including ARB staff engagement at all stages*. They can support a cap-and-trade program today with only minor adjustments to verification and enforcement to meet regulatory requirements. Further, any such changes considered by ARB should be undertaken in partnership with the Reserve to ensure consistency and certainty. Doing so will guide a clear transition to the regulatory program.

Program Administration: From the launch of its online registry system in May of 2008, the Reserve has grown from 3 projects to more than 350 projects and has verified and registered more than 5.5 million CRTs. Clearly, the Reserve has an established program infrastructure and processes and has experienced staff with demonstrated ability to administer a scalable offsets program that can meet ARB's needs. To eliminate duplication, avoid inefficiencies, and provide a clear, consistent, and stable transition to the regulatory program, we believe that ARB can and should rely on the Climate Action Reserve for the operation of its offsets program to the maximum extent possible. Relying on the Reserve, with appropriate ARB oversight, will minimize staff burden and costs to taxpayers, avoid uncertainties for program participants, and avoid the very real risk of program delays.

Permanence and Enforceability: The Reserve has developed a sophisticated system for ensuring the permanence of forestry projects using a combination of a buffer pool and project developer liability. We believe that ARB should take advantage of this system with as little change as is necessary to ensure the ongoing enforceability of stored carbon. In particular, rather than requiring buyer liability for reversals (or other discredited offsets), ARB should consider legal instruments such as the Forest Project Implementation Agreement or other similar mechanisms. Imposing ongoing liability on the purchasers of offsets, such as was suggested by ARB staff, is likely to disrupt markets and sharply reduce, or even completely eliminate, the use of forestry for offset projects. This would not only severely restrict the available pool of offset credits, but it would deprive California's environment of the numerous co-benefits of forestry projects.

We appreciate the dedication of ARB staff and thank you for taking the time to consider these comments.

With warm regards,



Gary Gero
President