BEFORE THE
AIR RESOURCES BOARD
OF THE
STATE OF CALIFORNIA

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY COMMENT ON ARB WORKSHOP JULY 30, 2010: SECTOR-BASED CREDITING AND SUBNATIONAL REDUCING EMISSIONS FROM DEFORESTATION AND DEGRADATION (REDD)

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I. INTRODUCTION AND SUMMARY

The Southern California Public Power Authority ("SCPPA") [1] respectfully submits this comment on the workshop conducted by the California Air Resources Board ("ARB") on July 30, 2010, entitled *Sector-based Crediting and Subnational Reducing Emissions from Deforestation and Degradation (REDD)* ("REDD Workshop").

In summary, SCPPA makes the following recommendations in relation to the ARB's proposed REDD offset program:

- The REDD program should be designed to allow REDD offsets to be generated as soon as possible – for example by allowing "pre-nested" projects rather than waiting until the sectoral approach has been fully developed.
- The ARB should at least aim to have some REDD offsets available before the surrender deadline for the first compliance period (in the third quarter of 2015).
- There is no need to impose a sub-limit on the use of REDD offsets, given the low overall limit on the use of offsets. A sub-limit would further restrict the ability of an offset program to provide cost containment and to incentivize REDD programs.

[1] SCPPA is a joint powers authority. The members are Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, Los Angeles Department of Water and Power, Imperial Irrigation District, Pasadena, Riverside, and Vernon. This comment is sponsored by Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, the Imperial Irrigation District, Pasadena, and Riverside.

- The ARB proposal that REDD offsets would not be awarded until a country or state has reduced deforestation by 25-50 percent below business-as-usual may be too restrictive to incentivize REDD programs.
- Private sector finance is important for the success of REDD programs. The ARB's REDD program requirements should not preclude the REDD program structures that are most attractive to private investors.

II. EARLY DEVELOPMENT OF REDD PROJECTS SHOULD BE PURSUED.

The timeline in slide 15 of the powerpoint presented by the ARB at the REDD Workshop ("REDD Powerpoint") indicates that REDD offsets may potentially become eligible for use in the California cap and trade program in 2015.

The REDD program should be designed to allow REDD offsets to be generated as soon as possible. In addition to benefiting the California cap and trade program, early adoption of REDD activities will provide substantial environmental benefits.

As noted by some commentators at the REDD Workshop, it may be possible for REDD offsets to become eligible and available earlier than 2015 if certain design options are pursued. Given the hurdles that are yet to be overcome in relation to implementing the sectoral approach, "pre-nested" REDD projects could be allowed prior to the time the sectoral approach has been fully developed for a particular country or region. The Climate Action Reserve ("CAR") noted at the REDD workshop that it is working on protocols providing for pre-nested REDD projects. The Voluntary Carbon Standard has also developed a protocol for use in such circumstances.[2] Allowing REDD offsets from such projects to be used for compliance in the California cap and

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[2] See the Voluntary Carbon Standard's *Guidance for Agriculture, Forestry and Other Land Use Projects*, available at http://v-c-s.org/docs/Guidance%20for%20AFOLU%20Projects.pdf.

trade program will provide a valuable incentive for the continued development of REDD projects and a bridge to a full sectoral approach.

Regardless of program design, the ARB should at a minimum aim to approve some REDD projects or programs in time for a number of REDD offsets to reach the market before the surrender deadline for the first compliance period (in the third quarter of 2015). This will provide at least some cost containment benefits for the first compliance period.

III. THERE SHOULD BE NO SUB-LIMIT ON THE USE OF REDD OFFSETS.

Slide 18 of the REDD Powerpoint proposes that "Sector-based offset credits would be limited to a portion of the overall offset limit." REDD offsets would presumably be included in the category of sector-based offset credits. Such a sub-limit is not appropriate.

Total offset use is already proposed to be strictly limited to four percent of a compliance entity's compliance obligation, ensuring that at least half the required emission reductions occur in California. In addition there are several complementary measures that will also require emission reductions in California. Any further limits or sub-limits on offsets are unnecessary to ensure Californian emission reductions.

The primary aim of an offset program is to allow emission reductions to occur in the most cost-effective way, reducing the overall cost of the cap and trade program while containing total emissions. A secondary aim is to support emission reduction projects in uncapped sectors and jurisdictions. REDD offsets fulfill both of these aims. Reducing deforestation is a cost-effective way of reducing emissions while providing significant co-benefits.

A sub-limit on REDD offsets would limit the extent to which the offset program can achieve these aims. It would further restrict the ability of the offset program to provide the very important function of cost containment. Artificially reducing the demand for REDD offsets would, by reducing REDD funding, also reduce the likelihood that REDD programs become established and successful in significantly reducing deforestation.

If the ARB does in fact wish to contain the costs of the cap-and-trade program and support efforts to reduce emissions from deforestation, it should consider setting a separate, additional limit for REDD offsets – not a sub-limit. For example, a compliance entity would be allowed to use any offsets up to four percent of its compliance obligation, and it would be allowed to use REDD offsets up to an additional four percent (eight percent in total).

Furthermore, there should be no limits on REDD offsets from projects in California, consistent with SCPPA's recommendation that Californian offsets from any recognized project type should not be subject to a limit.

IV. THE CREDITING BASELINE SHOULD NOT BE SET TOO LOW.

Slide 22 of the REDD Powerpoint proposes that REDD offsets would not be awarded until a country or state has reduced deforestation by 25-50 percent below business-as-usual levels (i.e., the crediting baseline would be set 25-50 percent below the reference level). SCPPA understands that the ARB needs to ensure that the emission reductions are additional and that REDD projects tend to face particular problems with additionality and leakage (compared to other types of offset projects).

However, it seems excessive to require a 25-50 percent reduction before any offset-related financial incentives can be earned. Setting the crediting baseline in this way may result in fewer REDD programs being established. The financial incentive may be too remote and too small to overcome the many hurdles to establishing a successful sectoral REDD program.

The ARB should consider ways to set the crediting baseline that encourage the early establishment of REDD projects and programs, bearing in mind the significant role that offset finance is likely to play in the viability of REDD programs.

V. REDD PROGRAM STRUCTURES THAT ARE ATTRACTIVE TO PRIVATE INVESTORS SHOULD BE ALLOWED.

Reducing emissions from deforestation is recognized as crucial in avoiding dangerous climate change. However, public funding for these efforts is insufficient and private-sector finance (for example a REDD offsets market) will therefore need to play a key role.[3] Knowing this, the ARB should ensure that its requirements for REDD programs do not conflict with the private-sector need to balance investment risks with financial returns (except to the extent necessary to ensure the ARB's offset criteria are met).

The Private Sector REDD+ Paper outlines some possible REDD program structures. These structures differ in the way REDD offsets are issued and allocated, and these differences affect the risk profile of REDD investments and hence the attractiveness of REDD projects to private investors. Specifically, private investors are likely to prefer structures in which REDD offsets are issued directly to the developers of sub-national REDD projects as well as (rather than only to) national/ regional governments.[4] The ARB's REDD program requirements should not preclude this type of REDD structure, and should allow some flexibility in REDD program structures.

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[3] See for example O'Sullivan, R., Streck, C., Pearson, T., Brown, S. and Gilbert, A. (2010) *Engaging the Private Sector in the Potential Generation of REDD+ Carbon Credits: An Analysis of Issues*, Report to the UK Department for International Development, page 17, available at http://www.climatefocus.com/documents/files/engaging_the_private_sector.pdf ("Private Sector REDD+ Paper").

[4] See Private Sector REDD+ Paper, page 10 and Chapter 4.

VI. CONCLUSION

SCPPA urges the ARB to consider these comments in developing the REDD offsets program for the California cap and trade program. SCPPA appreciates the opportunity to submit these comments to the ARB.

Respectfully submitted,

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