

Climate Action Reserve Presents:

An Overview of the Final Cap-and-Trade Regulation and What it Means for the Offset Market



**CLIMATE
ACTION
RESERVE**

Special Guest:

**Rajinder Sahota, Manager,
Cap-and-Trade Monitoring Section
California Air Resources Board**

**Webinar
Friday, January 20, 2012
10AM PST**

California's Compliance Offset Program

Rajinder Sahota
California Air Resources Board
January 20, 2012

Agenda

- Cap-and-Trade Regulation
- Compliance Offset Issuance Process
- Compliance Offset Protocols
- Verification, Verifiers, and Approved Registries
- Early Action Offsets
- Linked Programs and Sector-Based Offsets
- ARB Oversight
- Next Steps

Regulation Update

- Cap-and-Trade Regulation
 - Board approved resolution to adopt December, 2010
 - Board adopted the final regulation October, 2011
 - Regulation became effective January, 2012

Cap-and-Trade Overview

- The cap is the aggregate limit on GHG emissions from covered sources from 2013-2020
 - The cap applies to all sources combined
 - Individual facilities do not have caps
- Cap covers 85% of California's GHG emissions
 - Large industrial sources
 - Electricity generation and imports
 - Transportation fuels (beginning in 2015)
 - Residential and commercial use of natural gas (beginning in 2015)

Role of Offsets

- Entities may use up to 8% offsets for compliance in the cap-and-trade program
- Sources of compliance offsets
 - Issued directly by California Air Resources Board
 - Offsets issued by linked regulatory programs*
 - Western Climate Initiative
 - Sector-Based Credits*
 - REDD

* Subject to future rulemaking and stakeholder process

General Offset Criteria

- Reductions must meet AB 32 criteria
 - Real, additional, quantifiable, permanent, verifiable and enforceable
 - Additional - beyond regulation or would otherwise occur
- Offsets must result from ARB Board adopted compliance offset protocols
- Offset credits cannot be issued for GHG emission activities under the cap

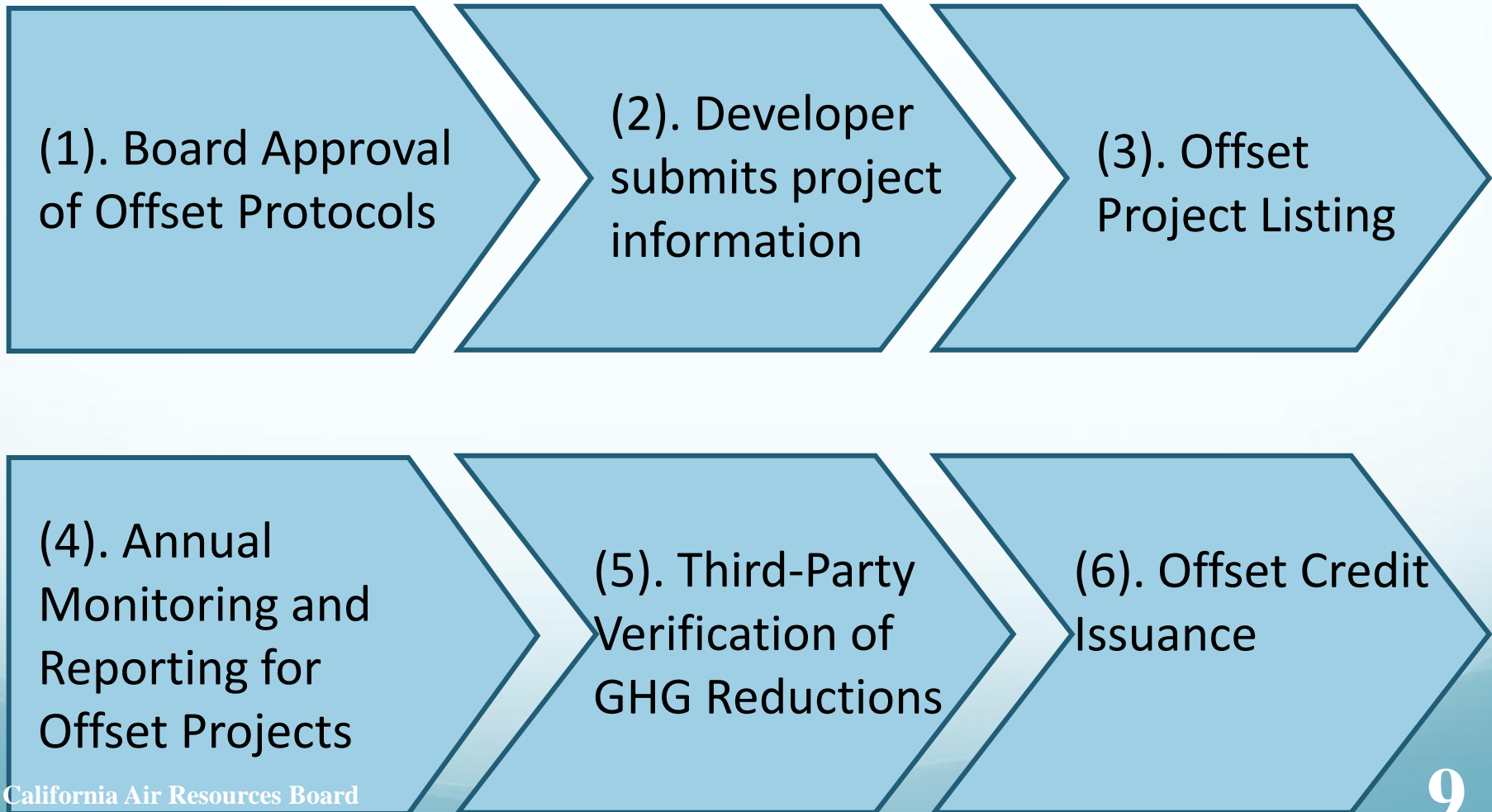
Crediting Periods

- Crediting periods provide a guaranteed period of return on investment if a project meets all of the compliance offset protocol requirements
- Range for crediting period length specified in general provisions of the regulation, specific length established within the compliance offset protocol
- Non-sequestration projects; 7-10 years
- Sequestration-based projects; 10-30 years
 - Permanence mechanism of 100 years

Geographic Location for ARB Offsets

- Offset projects must be located in the United States (lower 48), Canada, or Mexico for ARB to issue credits for the project
 - ARB's current compliance offset protocols only apply to the US
- WCI – North America
- Sector-Based – International

General Process for Issuance of Offset Credits



Offset Invalidation

- If an offset used for compliance is surrendered, the entity that used it must replace it with another compliance instrument
- 8 yr statute of limitation on invalidation
- Offset project reviewed by a second verifier within 3 yrs, that shortens the statute of limitation to 3 yrs
- Step-wise process before invalidation
- See regulation section 95985 for more details

Eligibility Date/ Start Date

- ARB issued credits
 - Offset projects commence after 12/31/2006
- May transition projects from voluntary registry to compliance offset protocol by February 28, 2015

Compliance Offset Protocols

- Forestry, Urban Forestry, Ozone Depleting Substances, and Livestock Digesters
 - Originally developed for voluntary offset market
 - Modified by ARB for compliance offset market
 - Considered regulatory documents
- Future Protocol Development
 - Coordinate with WCI partners
 - Develop internally or under contract
 - Must be approved by the Board after a stakeholder process

Protocol Development

- Compliance offset protocols must go through a regulatory process, which includes:
 - Stakeholder process
 - Environmental review (CEQA)
 - Board approval
 - Only ARB can adopt compliance offset protocols for the cap-and-trade program
- Standardized (top-down) approach to protocol approval
 - Board will adopt one protocol for each project type

Verification, Verifiers, and Offset Project Registries

Offset Verification and Verifier Accreditation

- AB 32 requires regulatory verification for all reductions used for compliance
 - Includes ARB issued offsets and early action
- Regulation includes third-party verification
 - Based on ISO 14064
 - Expanded on requirements for Mandatory GHG Reporting
 - Strict conflict of interest requirements
- ARB will accredit third-party offset verifiers
 - Undergo protocol-specific training and pass an examination

Voluntary Offset Registries

- Examples – Climate Action Reserve, Verified Carbon Standard, American Carbon Registry
- No regulatory relationship or formal affiliation with the State of California
- Cannot adopt compliance offset protocols on behalf of ARB
- Cannot issue compliance offset credits
- Can apply to ARB to help administer parts of the compliance offset program

Offset Project Registries

- Regulation includes provisions for ARB to approve offset project registries (OPRs) for performing some administrative functions of the offset program
 - Leverage existing external resources
 - Ensure offset supply in the early years of the program
- Offset projects listed with an OPR must still use an ARB compliance offset protocol and be verified by an ARB-accredited verifier

Approval of Offset Project Registries

- Regulation includes comprehensive requirements for OPRs
 - Application process
 - Information regarding its staff and Board members
 - Proof of liability insurance
 - Conflict of interest requirements
 - IT System for providing public information on offset projects
 - Primary location of business incorporation must be in the United States

Registry Services

- OPRs may provide the following administrative functions:
 - Facilitate offset project listing, reporting, and verification
- OPRs must conduct supplemental audits of projects listed using an ARB compliance offset protocol
- OPRs must make specific information publicly available for program transparency
- Required to provide project information periodically to ARB

Program Design Elements to Support ARB's Oversight Role

Offset Project Developers

- Provide detailed project information, which will be made publicly available
- Make attestations to ARB that they comply with all provisions in the regulation
 - If they are in non-compliance they will not be issued offsets
- Projects will be randomly audited by ARB and OPRs (by site visits and desk reviews)

Offset Verifiers

- ARB is notified before offset verification begins to plan its audit and oversight activities
- Staff will conduct site visits and desk reviews
- Accreditation may be suspended or revoked if in non-compliance
- These activities are supplemented by additional audits conducted by OPRs

Offset Project Registries

- ARB has audit and oversight authority of OPRs
- OPRs must provide an annual report to ARB with information relating to offset projects and findings related to supplemental offset verification audits
- Approval may be modified, suspended, or revoked if in non-compliance

Early Action Offsets

Recognizing Early Action Offsets

- Regulation includes a process and criteria for accepting “early action” offsets from qualified existing offset projects
- Includes earlier versions of protocols adopted by ARB for four project types
- After transition, project begins new crediting period

Early Action Offset Criteria

- Early action projects must be located in the United States
- Registered with Early Action Program by January 1, 2014
- Cover vintages of reductions that took place between 1/1/05 and 12/31/14

Western Climate Initiative (WCI)

- WCI, Inc. established 2011
- California and Quebec have adopted cap-and-trade regulations
- California and Quebec working to link programs in 2012
- California is working with WCI to evaluate and develop protocols that can be used within a regional program

Sector-Based Offsets

- Framework established for accepting sector-based offsets from developing countries
 - Regulation does not include any approved sectors or programs at this time
 - Awaiting recommendations from REDD Offset Working Group
- Adopted resolution clarifies a sub-limit on the use of sector-based offsets for compliance
 - 1st and 2nd compliance periods: No more than 2% of an entity's compliance obligation
 - 3rd compliance period: No more than 4% of an entity's compliance obligation

Next Steps for the Offsets Program

- Set up offset program
 - Accredite offset verifiers
 - Approve offset project registries
 - ARB tracking system
- ARB cannot accredit verifiers or approve registries prior to completion of ARB training
- Consider additional offset protocols – new rulemaking

Additional Information

- Cap-and-Trade Program

<http://www.arb.ca.gov/cc/capandtrade/capandtrade.htm>

- Join the cap-and-trade listserve at:

http://www.arb.ca.gov/listserv/listserv_ind.php?listname=capandtrade

Questions

Thank You and Please Join Us for Future Events:



CLIMATE
ACTION
RESERVE

Annual Conference

*Navigating the American
Carbon World 2012*

April 10-12 2012, San
Francisco, CA

www.NACW2012.com

APRIL 10-12 | SAN FRANCISCO

North America's Largest Carbon Event



WWW.NACW2012.COM

