

Key Provisions of California's Compliance Offset Program

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Agenda

- Rulemaking Background
- Offset Criteria
- Compliance Offset Issuance Process
- Compliance Offset Protocols
- Verification, Verifiers, and Approved Registries
- Early Action and Linkage
- ARB Oversight
- Next Steps

Rulemaking Background

- Cap-and-Trade Regulation
 - Board approved resolution to adopt December, 2010
 - Contains compliance offset program provisions
 - offset project developers
 - offset verifiers
 - offset project registries
 - Includes compliance offset protocols

General Offset Criteria and Usage

- 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 approved compliance offset protocols
- A covered entity may cover no more than 8% of its compliance obligation using offsets

Key Offset Terms

- Compliance Offset – issued by ARB for a project developed using an ARB compliance offset protocol
- Early Action – offsets issued by a voluntary registry that will be credited by ARB after a regulatory review process
- Voluntary Offset – not issued by ARB, not available for use in the cap-and-trade program

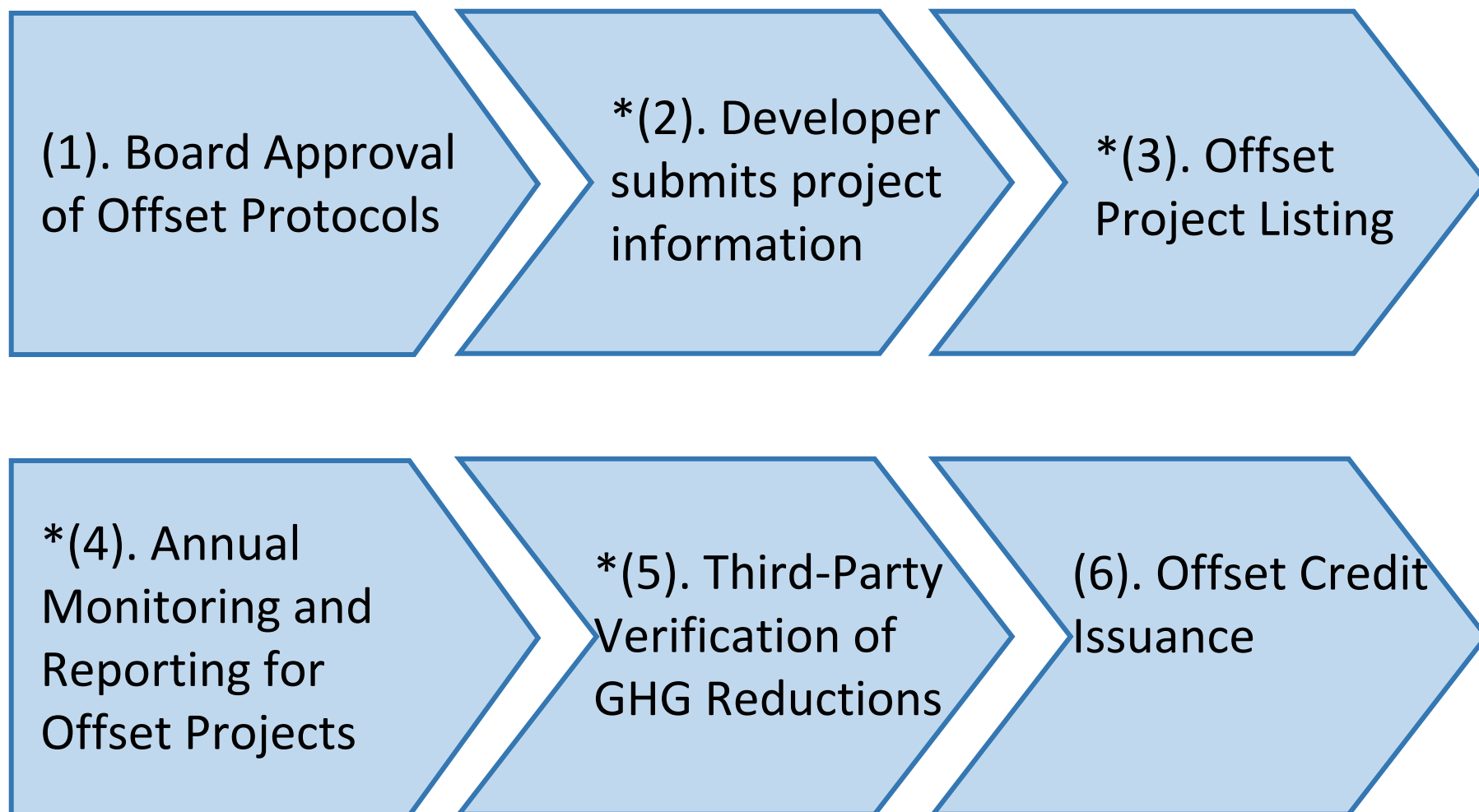
Crediting Periods and Renewals

- 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 with the possibility for 2 renewal periods
- Sequestration-based projects
 - 10-30 years with unlimited renewal possibilities as long as project meets program criteria

Geographic Location for ARB Offsets

- Offset projects must be located in the United States, Canada, or Mexico for ARB to issue credits for the project
 - WCI – North America
 - Sectorial - International

Process for Issuance of Offset Credits



Eligibility Date/ Start Date

- ARB issued credits
 - Offset projects commence after 12/31/2006
- Transition of projects from voluntary registry
 - 15-day changes will clarify a transition process

Compliance Offset Protocols

- Four ARB compliance offset protocols have been approved by the Board for use in the United States:
 - Livestock Manure (Digester) Projects Protocol
 - Urban Forest Projects Protocol
 - U.S. Ozone Depleting Substances Projects Protocol
 - U.S. Forest Projects Protocol
- Staff is evaluating additional project types for developing compliance offset protocols

Protocol Development

- Compliance offset protocols must go through a regulatory process, which includes:
 - Stakeholder process
 - Environmental review (CEQA)
 - Board approval
- Standardized (top-down) approach to protocol approval
 - Board will adopt one protocol for each project type

Verification, Verifiers, and 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

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 a 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

Registry Services

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

ARB's Oversight Role

Audits and Oversight of 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)
- Forest project developers must contribute to a buffer account to cover unintentional reversal risk

Audits and Oversight of 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 functions are beyond any audits conducted by OPRs

Audit and Oversight of 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 offset verification audits
- Approval may be modified, suspended, or revoked if in non-compliance

Early Action and Linkage

Recognizing Early Action

- Regulation includes a process and criteria for accepting “early action” offsets from qualified existing offset projects
- Includes protocols developed by CAR for four project types
- Language to clarify project transition and regulatory verification to be added to 15-day package
- After transition, project begins new crediting period*

Early Action Criteria

- Early action projects must be located in the United States
- Commence prior to 1/1/12
- Cover vintages of reductions that took place between 1/1/05 and 12/31/14

Western Climate Initiative (WCI)

- California is working with WCI to evaluate and develop protocols that can be used within the region
- California continues to collaborate for linkage with WCI jurisdictions as their programs develop

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
- Adopted resolution clarifies a sub-limit on the use of sector-based offsets for compliance
 - 1st compliance period: No more than 2% of an entity's compliance obligation
 - 2nd and 3rd compliance periods: No more than 4% of an entity's compliance obligation

REDD Development

- MOU established between Acre (Brazil), Chiapas (Mexico), and California
- Working group established to develop recommendations to ARB on future inclusion of REDD

Next Steps for the Offsets Program

- Complete cap-and-trade rulemaking
 - 15-day rule changes in late Spring
- Set up offset program
 - Accredited offset verifiers
 - Approve offset project registries
 - ARB tracking system
- ARB can not accredit verifiers or approve registries prior to completion of rulemaking
- Adopt additional offset protocols – new rulemaking

Additional Information

- For upcoming meetings and events related to cap-and-trade please visit:

<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

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Questions
