

Buyer / User Liability Provision – View on Compliance Impact, Market Operation

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Compliance Instruments Role in Cap & Trade

- Market options to reduce compliance costs
- Compliance instrument types
 - Emissions allowances
 - Emissions offsets
- Emissions allowances in market as well as offsets

Compliance Grade Offsets Creation

- CARB core offset process rigorous
 - Importance of permanence requirement
 - Approved protocols usage
 - Validation after emissions reductions occur
 - Formal verification & registration by agency
- Once offsets registered, limited potential for reversal

Addressing Reversal

- AB 32 compliance paramount
 - Offsets that are reversed do not contribute to emissions reduction
- Clear definitions important
 - Fraud
 - Unintentional errors (measurement, etc.)
 - Limitation of time

Management of Offsets

Performance Risk

- Efficiently managed by liability & damage based contracting with providers
- Can contract to protect against performance liability
 - Liquidated damages clause
 - Arrangement on price & supply long term
- Can protect customers from performance risk at a lower cost than market

Technical Focus - Development of Offsets Supply

- Protocol process
 - Acceptance of ‘early action’ credits
 - Placement of additional protocols
- Verification
 - Approval of verifiers
- Registration
 - Third party registries setup
- Should be major effort by agency