

California's Compliance Offset Program

California Air Resources Board

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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)

* Each linkage is subject to a rulemaking and stakeholder process

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
 - Linkage with Quebec Approved April 2013
 - Sector-Based Credits*
 - REDD
- Maximum offset demand 2013-2020 is 218 MMT
 - * Each linkage is subject to a 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
- Only ARB can issue compliance offsets under its Compliance Offset Protocols
- Offset credits cannot be issued for GHG emission activities under the cap

Program Development Process

- Held hundreds of individual and public meetings
 - International (CDM, Australia)
 - Domestic (Western Climate Initiative, RGGI)
 - California stakeholders (industry, environmental groups, air districts, market participants, voluntary offset programs)
- Conducted workshops and technical working groups to develop the design of the program and the Compliance Offset Protocols
- Released multiple drafts of the Regulation and Compliance Offset Protocols for stakeholder comment
- Multi-year process

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 projects in the United States
 - No plans to issue offsets for projects in Canada or Mexico
- Western Climate Initiative – North America
- Sector-Based – International

Protocol Development

- Compliance offset protocols must go through a regulatory process, stakeholder process, environmental review, and finally Board approval
- Standardized (top-down) approach to protocol approval
 - Protocols include standardized baseline calculations, additionality requirements and quantification methods developed for the relevant sector or project activity
 - Could vary by region within the geographic scope of protocol
 - Board will adopt one protocol for each project type
 - Least administratively burdensome
 - Limit subjectivity by providing clear, prescriptive requirements

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
 - Clear and enforceable requirements
- Current Protocol Development
 - Proposed Mine Methane Capture for Board adoption
 - Developing Rice Cultivation
 - Coordinate with WCI partners
 - Must be approved by the Board after a stakeholder process

Determining Offset Program Scope

- Capped vs uncapped sectors
 - Cap covers 85% of California's economy
 - Protocols only approved for sectors/activities that are not covered by the cap
 - Mainly agriculture and forestry, as well as high GWP gases
 - Avoids double counting in the Cap-and-Trade Program
- Direct emission reductions
 - Only issue credits to direct emission reductions that occur at the location where the reduction activity is implemented
 - Avoids double counting and concerns over ownership

Periodic Review of Protocols

- Continually assess whether approved Compliance Offset Protocols need to be amended
 - New scientific developments that may warrant changes in quantification or emission factors
 - Regulatory and common practice changes that could affect the additionality
- Changes to existing protocols will be amendments to the Cap-and-Trade Regulation
 - Will include a stakeholder consultation process
- Balance frequency of review with need for program and market certainty

Project Cycle

- Listing
 - Operators submit initial information about the project and make attestations to ARB that they comply with all provisions in the regulation
 - If they are in non-compliance, they will not be issued offset credits
 - No validation step, initial verification serves to establish project eligibility
- Reporting
 - Operators must submit annual reports
- Verification
 - Each report must be verified by an ARB-accredited verification body before compliance offsets are issued
- Issuance
 - ARB reviews and issues ARB offset credits, if the project meets the requirements

Offset Verification Program (1)

- AB 32 requires regulatory verification for all reductions used for compliance, including offsets
- Regulation includes third-party verification
 - Based on ISO 14064
 - Expanded on requirements for Mandatory GHG Reporting
 - Strict conflict-of-interest requirements
- Key verification requirements
 - Offset material misstatement threshold is +5% of total reported emission reductions/removal enhancements
 - Operators must correct all fixable errors or they receive an adverse opinion
 - Offset verification team must assess conformance with the Regulation and applicable protocol

Offset Verification Program (2)

- ARB accredits third-party offset verifiers
 - Must take training in general verification principles and their application to the compliance offset program
 - May become accredited as a offset project specific verifier
 - Pass exit exams
- ARB accredits third-party verification bodies
 - Staffing requirements
 - Insurance requirements
 - Responsible for conflict of interest requirements

ARB Oversight of Verification Bodies and Offset Verifiers

- Strict rotation requirements for verification bodies and offset verifiers is applied
- ARB is notified before offset verification begins so that ARB can plan its audit and oversight activities
- ARB staff will conduct site visits and desk reviews
- Verifier accreditation may be suspended or revoked if verifier is deemed to be non-compliant
- ARB activities are supplemented by additional audits conducted by Offset Project Registries (OPR)

Offset Project Registries

- OPRs are ARB approved entities that assist ARB in administering parts of the compliance offset program
 - Use of OPRs will leverage existing external resources and ensure offset supply in early years of the program
 - Regulation includes specific criteria that must be met for approval as an OPR
- Have no regulatory relationship or formal affiliation with the State of California. Restrictions include:
 - Cannot adopt compliance offset protocols on behalf of ARB or issue compliance offset credits
 - Projects must use an ARB Compliance Offset Protocol and be verified by an ARB-accredited verifier
 - Cannot issue compliance offsets

ARB Oversight of OPRs

- Regulated by ARB
- ARB has audit and oversight authority over 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 the OPR is found to be non-compliant

ARB's Role

- Approve Compliance Offset Protocols
- Review project documentation
- Determine issuance of ARB offset credits based on review
- Accredite and oversee verifiers/verification bodies
- Approve and oversee OPRs
 - Ongoing coordination with OPRs

Enforcement and Liability

- ARB may take enforcement action against third-party verifiers, offset project developers, Offset Project Registries, and offset users
- Forest Buffer Account is established for unintentional reversals in forest offset projects
- Offsets determined to be ineligible after issuance or acceptance would result in an invalidation of the credit for compliance use

Offset Invalidation

- “Buyer Liability” refers to ARB’s authority to invalidate an offset after its been issued for specific reasons.
 - Ensures environmental integrity
 - Promotes due diligence by offset users
 - Promotes self-policing in the offset market
- If an offset used for compliance is invalidated, the entity that used it must replace it with another compliance instrument
- Eight-year statute of limitation on invalidation
- If an offset project is reviewed by a second verifier within three years, the statute of limitation is shortened to three years
- Step-wise process before invalidation

Offsets and Linkage

- All offsets recognized by ARB must meet AB 32 offset criteria
- ARB issued offsets recognized by linked jurisdiction
- Linked jurisdiction issued offsets recognized by ARB
- Each jurisdiction responsible for quality of its issued offsets
- Linked jurisdictions must agree on each others project types and offset protocols

Western Climate Initiative

- WCI formed in 2007 – eye towards linkage
 - Design documents for Program
 - Offset criteria established – AB 32 minimum for California
 - What must be identical and options that were mutually acceptable
 - Rule development at jurisdiction level
- ARB's Board approved linkage with Quebec's Cap-and-Trade Program in April 2013
 - Linkage took effect January 1, 2014
- Quebec's offset protocols were reviewed by ARB staff and are consistent with ARB's protocols and AB 32 criteria
- Future protocols will be developed together

Recognizing Early Action Offsets

- AB 32 requires recognition of early actors who reduced GHGs
- 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
- Beginning in early 2015 all early action projects must transition to ARB’s Compliance Offset Protocols to continue receiving compliance offsets
 - After transition, project begins new crediting period
- Program has a finite time limit

Status Update: Projects and Issuance

- ARB has listed early action and compliance offset projects:
 - Over 80 early action offset projects for transitioning voluntary credits into compliance offsets
 - Over 40 compliance offset projects developed under ARB's Compliance Offset Protocols
- ARB has issued over 5 million compliance offsets to date
 - So far the credits have been issued to compliance ODS projects, as well as ODS, livestock, and U.S. forest early action projects

Additional Information

- Cap-and-Trade Program

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

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