

# 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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