California’s Cap and Trade Program

Session 5
Use of Offsets

PMR Technical Workshop
March 13, 2012
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
Role of Offsets

• Entities may use compliance-grade offsets to satisfy up to 8% of their compliance obligation

• Sources of compliance offsets
  – Offsets issued directly by CARB
  – Offsets issued by linked regulatory programs (e.g., Western Climate Initiative)*
  – Sector-Based Credits (e.g., REDD)*

* Subject to future rulemaking process
Why Limit the Use of Offsets?

• Need to maintain a strong incentive for emission reductions from covered entities in California

• Ensure California transitions to a clean-energy, low-carbon economy
Offsets by Compliance Period

• The maximum number of offsets allowed per compliance period
  – Compliance Period 1 (2013-14) => 26 MMT
  – Compliance Period 2 (2015-17) => 92 MMT
  – Compliance Period 3 (2018-20) => 83 MMT

• Covered entities may find less costly onsite reductions and not use the maximum allowable number of offsets for compliance
General Offset Criteria

- Reductions must meet State law criteria.
- Real, additional, quantifiable, permanent, verifiable, and enforceable.
- Additional = beyond regulation or what would otherwise occur.
- Offsets must result from Board-adopted compliance offset protocols.
- Offset credits cannot be issued for GHG emission reduction activities already covered 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.
Offset projects must be located in the United States, Canada, or Mexico for ARB to issue credits

- ARB’s current compliance offset protocols only apply to the U.S.

- WCI – North America

- Sector-Based Offsets – International
General Process for Issuance of Offset Credits

1. Board Approval of Offset Protocols
2. Developer Submits Project Information
3. Offset Project Listing
4. Annual Monitoring and Reporting for Offset Projects
5. Third-Party Verification of GHG Reductions
6. Offset Credit Issuance
 Protocol Development

• Compliance offset protocols must go through a regulatory process, which includes:
  – Stakeholder process
  – Environmental review (CEQA)
  – CARB approval

• Only ARB can adopt compliance offset protocols for the cap-and-trade program

• Standardized (top-down) approach to protocol approval
  – CARB will adopt one protocol for each project type
ARB 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

• Future Protocol Development
  – Coordinate with WCI partners
  – Develop internally or under contract
  – Must be approved at formal CARB public hearing after public stakeholder process
Offset Invalidation

• 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
Offset Project Developers

- Provide detailed project information that will be made publicly available
- Make attestations to CARB that they comply with all provisions in the regulation
- If they are in non-compliance, they will not be issued offset credits
- Projects will be randomly audited by ARB and OPRs via both site visits and desk reviews
Offset Verification and Verifier Accreditation

• Law requires regulatory verification for all reductions used for compliance
  – Includes CARB-issued offsets and early action

• Regulation includes 3rd-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, who must undergo protocol-specific training and pass an examination
• CARB is notified before offset verification begins so that CARB can plan its audit and oversight activities
• CARB staff will conduct site visits and desk reviews
• Verifier accreditation may be suspended or revoked if verifier is deemed to be non-compliant
• CARB activities are supplemented by additional audits conducted by OPRs
Authorization of Offset Project Registries

• Regulation allows CARB to approve OPRs for performing some administrative functions
  – Leverage existing external resources
  – Ensure offset supply in the early years of the program

• Offset projects listed with an OPR must still use a CARB compliance offset protocol and be verified by a CARB-accredited verifier

• Use of OPRs will leverage existing external resources and ensure offset supply in the early years of the program
Registry Services

- May facilitate offset project listing, reporting, and verification
- Must conduct supplemental audits of projects listed using an ARB compliance offset protocol
- Must make specific information publicly available for program transparency
- Required to provide project information periodically to ARB
Restrictions on Offset Project Registries

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

- 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
Oversight of Offset Project Registries

• 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
Sector-Based Offsets

- CARB has established a framework for accepting sector-based offsets from developing countries
  - Regulation does not include any approved sectors or programs at this time
  - ARB is awaiting recommendations from the 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
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
Recommendations

• Offsets provide cost containment
• Integrity of offset programs critical to success of the program
• Controversial aspect - requires thoughtful approach and careful evaluation
• International offsets require extensive review and interagency coordination