



August 13, 2008

Via Electronic Submittal

Courtesy Copies Via E-Mail to:

Janice Adair, Chair of the WCI (jada461@ecy.wa.gov)

Steve Owens, Co-Chair of the WCI (Owens.Stephen@azdeq.gov)

Tim Lesiuk, Chair of the Offsets Subcommittee (Tim.Lesiuk@gov.bc.ca)

Re: Comments of the Carbon Offset Providers Coalition on the Western Climate Initiative Draft Design of the Regional Cap-and-Trade Program (July 23, 2008)

Dear Ms. Adair, Mr. Owens, Mr. Lesiuk, and Members of the Offsets Subcommittee:

The Carbon Offset Providers Coalition (the “COPC”)¹ is made up of leading companies in the carbon offset market, including those involved in financing, producing, generating, providing, aggregating, and/or marketing greenhouse gas (“GHG”) emission reductions for sale as offsets in existing and emerging voluntary and regulatory GHG emission trading markets. The COPC is pleased to have this opportunity to comment on the Western Climate Initiative (“WCI”) Draft Design of the Regional Cap-and-Trade Program (“Draft CAT Design”).

COPC previously submitted comments on the Draft Design Recommendations on Elements of the Cap-and-Trade Program, dated June 6, 2008, and on the Summary of Major Options for a GHG Offsets System to Support the WCI Program, dated February 1, 2008.² We incorporate those comments by reference (particularly the February Comments, which are more comprehensive and detailed), and we here limit ourselves to comments on Section 9 of the Draft CAT Design, entitled “Offsets, and Allowances from Other Systems. These comments track the organization of Section 9; they are based on our members’ more than fifty years of collective practical experience with carbon offset projects in the U.S. and other international markets.

¹ The members of the Coalition include the following companies: Blue Source, LLC; Camco International Group, Inc.; The CarbonNeutral Company; CO₂ Solutions; Commonwealth Resource Management Corp.; Environmental Credit Corp.; Greenhouse Gas Services (a GE AES venture); Kolibri Group; MGM International; and N.Serve Environmental Services. More information is available at www.carbonoffsetproviders.org.

² The COPC comments dated June 6, 2008 are available at <http://www.westernclimateinitiative.org/ewebeditpro/items/O104F18105.pdf>. The COPC’s February Comments are not currently posted on the WCI website but are available at <http://www.carbonoffsetproviders.org/resources/Comments+of+the+COPC+for+the+WCI+Offsets+Subcommittee+doc.pdf>.



Section 9.1 (Purpose of the Offsets Program): The COPC welcomes the WCI’s strong commitment to including a robust *and* rigorous offsets program in the Draft CAT Design. In particular, the COPC affirms the WCI’s fundamental statement that, “The primary role of the offsets system is to reduce the compliance costs for the cap-and-trade program, while ensuring the environmental integrity of the cap.” Such a cost containment mechanism is critical to ensuring the success of the CAT program while at the same time incentivizing the near term GHG emission reductions that are urgently needed to mitigate climate change.

Section 9.2 (Quantity Limits): The COPC respectfully submits that the WCI’s stated intention to “establish a [quantity] limit on the use of offsets” is fundamentally flawed and premature as well. As discussed more fully in our February Comments, there is no sound economic rationale for limiting the use of high quality offsets. Numerous studies have shown that utilizing offsets in a CAT program significantly reduces the cost of compliance, thereby helping to ensure its success. We cited several of these in our February Comments. Just six weeks later the U.S. Environmental Protection Agency (“EPA”) released its detailed analysis of the Lieberman-Warner Climate Security Act of 2008 (S. 2191) which confirmed these prior studies. While the EPA study focused on the proposed federal legislation, the basic thrust of the analysis applies equally to the WCI regional CAT program. In it, EPA determined:

- ***If the use of domestic offsets and international credits is unlimited, then allowance prices fall by 71% compared to the bill as written.***
- If the use of domestic offsets is unlimited, and international credits are still limited to 15% of compliance obligation, then allowance prices fall by 26% compared to the bill as written.
- ***If domestic offsets and international credits are not allowed, and the caps must be met solely through emissions reductions in covered sectors, then allowance price increases by 93% compared to the bill as written.***

EPA Analysis of the Lieberman-Warner Climate Security Act of 2008 *S. 2191 in 110th Congress* (March 14, 2008) at 6 (emphasis added). Decreasing the cost of allowances by 71% versus increasing the cost by 93% -- that’s quite a spread. Quantity limits make no economic sense.

Establishing a quantity limitation on the use of offsets also does nothing to help ensure the environmental integrity of either the offsets or the cap. Both can be addressed effectively only by addressing them directly. To ensure the environmental integrity of offsets, focus on their quality; the focus on quantity is a distraction. As discussed below, the COPC welcomes the efforts by the WCI to ensure that only genuine offsets -- those that are real, additional, verifiable, and permanent -- qualify for the program. Similarly, the environmental integrity of the cap can be ensured only by focusing on determining the appropriate scope and level of the cap. Thus, when one considers the issue of environmental integrity directly, it is clear that establishing a quantity limit runs counter to the very purpose of an offsets program as set forth in Section 9.1: “to reduce the compliance costs for the cap-and-trade program, while ensuring the environmental integrity of the cap.”



Indeed, encouraging the development of quality offsets actually promotes environmental integrity, as offsets make real contributions to the effort to mitigate climate change by reducing GHG emissions *in the near term* and by those without compliance obligations under the cap. They thus serve as an important bridge to the low carbon economy of the future.

In addition, the Draft CAT Design's statement that, the "WCI Partners are considering a limit not greater than ten (10) percent of an individual entity's or facility's compliance obligation (i.e., the number of allowances a covered entity or facility is required to surrender to cover its emissions)," is premature. We welcome the clarifications that were provided at the July 29 Stakeholder Meeting, during which the WCI explained that this is a "placeholder" figure only and that the anticipated limit could go up or down depending upon the result of the WCI's economic modeling -- which results, unfortunately, have still to be released. In view of that fact, we respectfully submit that it is premature to commit to establishing a quantity limit without the benefit of those studies. What if the models show that there is no economic rationale for establishing a quantity limit? Considering the results of the EPA analysis cited above and virtually every other such study performed to date, that seems quite possible. We therefore urge the WCI to reconsider committing to any quantity limitation on the use of quality offsets.

Sections 9.3, 9.4 and 9.6 (Protocols for Qualifying Offsets): First, the COPC supports the WCI's commitment in Section 9.6 that, "WCI design protocols will meet rigorous criteria to preserve the environmental integrity of the overall cap-and-trade program." For offsets to serve their purpose, they must be real, additional, verifiable, and permanent. The COPC supports the establishment of rigorous standards to ensure the environmental integrity of offsets.

The COPC also supports the WCI's approach of developing a "positive list" of approved offset project types for which well-established protocols exist. We only question why in Section 9.3 the WCI has selected only three "as a priority for investigation and development." We note that the Regional Greenhouse Gas Initiative ("RGGI") began with more back in 2005, and much work has been done to develop protocols for additional project types since RGGI was launched. Robust and respected protocols have indeed been established for project types within the three categories on the WCI list (agriculture, forestry, and waste management). However, many others also have been developed and thoroughly vetted. Without endorsing any particular organization or standard, we here list some of the leading organizations that have been working in this area:

- The UNFCCC's Clean Development Mechanism: <http://cdm.unfccc.int/methodologies/index.html>;
- The Climate Action Reserve (a division of the California Climate Action Registry): <http://www.climateregistry.org/offsets.html>;
- The Voluntary Carbon Standard: <http://www.v-c-s.org/>;
- Gold Standard for Voluntary Offsets: <http://www.cdmgoldstandard.org/>;
- Green-e Climate Program: http://www.green-e.org/getcert_ghg.shtml;
- Climate, Community & Biodiversity Standards: <http://www.climate-standards.org/>;
- Chicago Climate Exchange: <http://www.chicagoclimatex.com/>;
- Plan Vivo: <http://www.planvivo.org>

In short, if there is a problem in this area, it is the surfeit of standards, not their absence. There is thus much for the WCI to draw upon as it develops standards for a positive list of approved project types. We therefore welcome the statement in Section 9.4 that the WCI Partners “will make use of (or adapt if needed), existing protocols as appropriate.”

The COPC strongly encourages the WCI to expedite this work and develop a greatly expanded “positive list” of approved offset project types soon. In doing so, we offer one additional resource to the WCI: the COPC and its members. Our combined membership has more than 50 years of on-the-ground experience with a wide variety of offset projects. Per the discussion at the July 29 Stakeholder Meeting, we stand ready to provide assistance to the WCI as it undertakes the large and important task of developing standards, protocols and procedures for approving and overseeing offset projects that generate qualified offsets.³

Sections 9.5, 9.6, 9.7 and 9.9.1 (Geographic Limits and Ensuring Standards): The COPC welcomes the statement in Section 9.5 that the, “WCI Partners may approve and certify offset projects located throughout Canada, the United States, and Mexico, where such projects would be subject to comparably rigorous oversight, validation, verification and enforcement as those located within the WCI jurisdictions.” We also appreciated the clarification at the July 29 Stakeholder Meeting that the WCI Partners are committed to developing consensus on this issue, such that the allowable geographic scope of offset projects is consistent amongst all the WCI Partner jurisdictions. We similarly welcome the statement in Section 9.7 that the WCI CAT program also may allow the use of offset credits from the Clean Development Mechanism (“CDM”) AND Joint Implementation (“JI”) program, possibly by “establish[ing] added criteria to ensure similar rigor to WCI approved/certified offset projects or other requirements appropriate to enable use of these offset credits.”

We question the word “may” in both Sections 9.5 and 9.7 though, and we strongly encourage the WCI to allow quality offsets generated by projects throughout Canada, the United States, and Mexico, as well as CDM and JI credits. As discussed more fully in our June and February Comments, there is no sound economic or environmental rationale for limiting quality offsets by geography. Climate change is a global problem, and when it comes to the emission of GHGs, “a ton is a ton” regardless of where it is reduced or sequestered. Once again, the focus -- as Section 9.9.1 affirms -- must be on ensuring the quality of the offset generated. As noted in the discussion of quantity limits above, those issues are best addressed directly by establishing rigorous processes for the approval and regulatory oversight of offset projects within the WCI Partner jurisdictions, and similar processes for developing and ensuring confidence in the approval and regulatory oversight systems of other jurisdictions where offset projects are

³ As discussed more fully in our prior June and February Comments, innovation should be encouraged by enabling new project types to obtain approval through a case-by-case review process. We welcome the statement in Section 9.4 that, “The WCI Partners will also initiate the establishment of a process during 2009 to coordinate the review and approval of other project types and protocols proposed by project developers.” We also recommend that a process be established for promptly adopting new “top-down” standardized protocols based on project types developed through the “bottom-up” approach; *i.e.*, that project types can move from the a case-by-case approval process to a standardized approval process as experience is gained with the particular methodology.



located. As with the discussion of protocols above, we encourage the WCI to draw upon the large body of good and thoroughly vetted work that has been done in this area.

Section 9.9.2 (Voluntary Offsets): The COPC also strongly supports the statement in 9.9.2 that, “WCI Partners do not intend to regulate or restrict the existing voluntary market in offsets, to restrict the sale of offsets from projects located within the WCI states and provinces, or to place restrictions on ownership of offsets projects located within WCI partner states and provinces.” It is largely within the voluntary market that new and improved offset projects are being developed. The WCI’s regional CAT program should be developed so as not to adversely impact this market. Indeed, the existence of a voluntary market alongside the compliance market of the regional CAT program serves an important complementary function -- providing a useful laboratory for the development of new and improved offset projects, and just as importantly, greatly expanding the scope of those involved in mitigating climate change. It is critical to draw into the global effort to mitigate climate change as many sectors of the economy and the society as possible, including those for which it is impractical for governments to regulate. The existing voluntary market for offsets is an important tool in this effort and the COPC encourages the WCI should develop its CAT program in such a way that the voluntary market is encouraged to grow.

Finally, we reiterate the procedural points that we included in our June Comments: We are growing concerned by the delays in the release of the WCI’s economic models. These modeling exercises are likely to be of critical importance in the development of the final Design of the regional CAT program, currently scheduled for September 22. At this late date, it will be difficult if not impossible for stakeholders to provide -- and for the WCI to digest -- meaningful comment on the economic models prior to the release of the final Design. We therefore reserve the right to comment further when these economic models and the final Design are released.

We hope that the WCI and the Offsets Subcommittee find these comments helpful. The Coalition would be happy to provide additional information to the WCI and the Subcommittee. For more information regarding carbon offsets and the Coalition, we invite you to visit our website at www.carbonoffsetproviders.org, or contact the Coalition through our representative, Nicholas W. van Aelstyn, Beveridge & Diamond, P.C., 456 Montgomery Street, Suite 1800, San Francisco, CA 94104 (tel. (415) 262-4008; e-mail NvanAelstyn@bdlaw.com).

Sincerely,

A handwritten signature in black ink that reads "Roger Williams W".

Roger Williams
Chairman
Carbon Offset Providers Coalition