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The Verified Emission Reduction Association (VERA) is appreciative of the latest CARB informal workshop leading up to the Cap-and-Trade regulatory amendments next year. The workshop focus was Cost Modeling and Cost Containment provisions. One of the key cost containment provisions that has been a foundational policy of the Cap-and-Trade Program has been Compliance Offsets. VERA is committed to working with CARB, and other market stakeholders, as the Cap-and-Trade regulation is amended and the treatment of offsets post-2030 is established such that those cost savings (and environmental benefits) continue to be realized.

VERA is a coalition made up of individual companies with vast experience in achieving real greenhouse gas (GHG) reductions for cost-effective use in California's Cap-and-Trade Program (Program). VERA strongly supports California's efforts to reduce statewide GHG emissions through a market-based program, including the use of high-quality carbon offsets in the post-2030 program design. We are pleased that California law has codified the use of offsets in the Program through the end of the decade[1]. We continue to support CARB's efforts to defend the use of, and to maximize the benefits of high-quality compliance-grade offsets to contain costs, show leadership, deploy private capital and provide local environmental and economic co-benefits. Additionally, VERA supports the development of new and innovative technologies that can be deployed at scale to achievable additional GHG reductions that could otherwise not be achieved through command-and-control regulations alone.

The morning presentation at the November 16th workshop highlighted the potential costs of the Program moving forward[2]. When a question was asked about how offsets were used in the model, the answer from Professor Bushnell was that the maximum allowable offsets were assumed to be used. VERA agrees with that modeling assumption. What wasn't discussed in detail was how much the inclusion of offsets actually saves the 'market', or the citizens and businesses of California.

To answer the question of "How much cost savings are there to the Cap-and-Trade system through the use of offsets?" VERA created a simple model to show the potential savings associated with offset usage for the remainder of the Program. Assuming a 6% maximum offset usage, with a 75% utilization rate post 2030, and distinct DEBs and non-DEBs discounts on the cost of offsets, the results showed dramatic savings[3]. *The cost savings associated with a full use of offsets for the remainder of the Program exceeds $8 Billion dollars.* If you assume that offsets are fully utilized moving forward, the savings grows to over $11 Billion dollars.

[1] http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201720180AB398

[2] https://ww2.arb.ca.gov/sites/default/files/2023-11/nc-combinedSlides_Nov162023.pdf

[3] DEBs and Non-DEBs discounts based on publicly available third-party data for December 12, 2023. Projected allowance costs provided by cCarbon.

These results highlight a key policy pillars of compliance offsets, that they provide a significant price containment mechanism.

Though the overall statewide emissions cap is declining, the primary policy role of offsets remains unchanged. The continued inclusion of offsets as a GHG reduction policy option recognizes the myriad of benefits to California's environment and economy in all areas of the state, including; tribal, rural and urban communities. Additionally, VERA supports CARB's consistent recognition that many of the approved offset projects provide direct environmental benefits to California. Whereas an Allowance is permission to emit a ton of CO2e, a CARB issued offset is proof that a ton of CO2e has been reduced.

Compliance offsets have been, and will continue to be, an important component of the holistic approach to achieving the overall goals of the State. There should be no question that offsets *should* be included moving forward.

VERA members remain fully committed to the fundamentals of environmental integrity of the offsets developed and brought to the market with needed private capital. Our members are dedicated to ensuring that all offsets used in the Program are *real, quantifiable, permanent, verifiable, additional and enforceable* GHG reductions, as required under the state law. We continue to believe they are an effective component of a complex Program, and that they have both direct and indirect benefits in helping to accomplish the Programs' lofty goals including, establishing a regulation that other jurisdictions can emulate. Offsets are also a key strategy to reduce or sequester GHG emissions from within the NWL sector of the statewide inventory.

To ensure there is sufficient demand for continued project development, VERA recommends returning the offset usage limit to 8% post-2030, from the 6% level that will be in place during 2026-2030. In absolute terms, returning to 8% usage in 2031 would not result in an increase in offsets utilized versus 2026, as the higher percentage would be calculated against a much smaller overall budget. As the cap declines and the marginal cot of abatement increases, offsets will remain a critical cost containment mechanism.

Conclusion

Offsets have proven a valuable policy tool to achieve additional GHG reductions from a broader cross-section of the economy while saving the Program millions of dollars in annual compliance costs. They are also a mechanism that is exportable to other jurisdictions, as well as, a way for private capital to be deployed to help meet the state's ambitious climate and land management goals.

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