Camco comments on the role of offsets under AB32

Camco International welcomes the opportunity to offer comments on the role of offsets under AB32. Camco is a publicly listed carbon project development company, with sustainable energy consultancy and technology investment businesses. We operate in nine countries including the United States, the United Kindgom, China, Russia, and in several African countries, with our North American operations headquartered in Denver, Colorado. We manage one of the world's largest carbon portfolios and were honored to be voted "Best Project Developer" by Point Carbon Awards in 2007 and 2008.

Camco strongly supports the stakeholder comments articulated at the April 4, 2008 workshop in favor of including offsets as a compliance mechanism under AB 32, without imposing quantitative or geographic limitations on their use. We offer brief responses to the specific questions posed to stakeholders by the ARB, as follows:

- **Should CA have an offsets program for compliance purposes?**

Yes. California's target is strong, the threat of climate change impacts is real, and the inclusion of regulatory-grade offsets that are real, additional, quantifiable, permanent, verifiable, and enforceable will enable the same environmental benefits to be achieved at lower cost. At the same time, an offsets program will incentivize the adoption of best available technologies. Regulatory-grade offsets do not cause an increase in the emissions of other environmental pollutants. The CDM requires both global and local stakeholder consultations as part of the project development process and these important steps are, along with all other project requirements, independently audited. The major voluntary offset standards encourage or require stakeholder consultation, with the least stringent standards requiring at a minimum public notification.

- **What should the project approval and quantification process be?**

Camco supports a hybrid approach whereby a positive list of eligible project types is put forth using a standards-based, "top down" approach, while also allowing for additional project types to be added by the ARB or submitted by project developers for inclusion in the positive list. The standards-based approach would be more transparent than a project-by-project, "bottom up" approach and therefore reinforce the credibility of offsets. This should be complemented by allowing additional project types to be evaluated on a project-by-project basis, and not overly restrict the ability to develop new project types using new approaches and technologies. The ARB notes that there are tradeoffs between screening out non-additional projects and excluding additional ones. No matter the method of approval and quantification, processes that enable the establishment of real, additional, etc. reductions should be encouraged. A hybrid approach would maximize the program's ability to do so.

- **Should there be quantitative limits on the use of offsets for compliance purposes? If so, how should the limits be determined?**

No. Imposing limits would increase investment risk in emission reduction activities and compliance cost for covered entities. The ARB notes that it is possible for California to change over time any quantitative limit on offset credit use. If after the program becomes operational, ARB determines that covered entities are using offsets only to avoid more costly but necessary investments, ARB can review whether and how to impose quantitative limits.

ARB has also noted its hope that more of the world will implement GHG emission reduction programs over time, which would already serve to limit the amount of uncapped sources that are eligible to generate offset credits. Supply and demand should be assessed if limits are to be adopted to avoid imposing arbitrary restrictions.

- **Should California establish geographic limits or preferences on the location of projects that could be used to generate credits within the offsets system? If so, what should be the nature of those limits or preferences?**

No. Imposing geographic limits from other US states or other countries would limit California's ability to seek out least-cost emission reductions. As an environmental leader in the United States, California could avert this by allowing offsets generated beyond its borders to be used for AB32 compliance. Geographic limitations may also be perceived by the international community as continued unwillingness by the United States to participate in a multilateral effort to combat climate change, which has been a major obstacle towards encouraging broader and deeper action at the international level.

- **Should California discount credits from offset projects?**

No. There is no environmental or economic justification to discount compliance-grade offset credits. AB32 requires that offsets be real, additional, etc. and ARB should devote its efforts to ensuring that this requirement is met. The ARB rightly points out that a discount factor could disincentivize truly additional projects, and discounting would complicate the option of linking to other cap and trade programs. Discounting offers only disadvantages.

A note on the integrity of offsets:
Camco takes this opportunity also to speak briefly to the integrity of offsets, as it is critical that the public has confidence in the emission reductions that offset credits represent. Our experience in originating, developing, validating and verifying a large portfolio of energy efficiency and renewable energy projects, of which a substantial portion are CDM credits, as well as some voluntary projects and early initiatives at the community level, lend to our confidence that the integrity of offsets can be ensured. It is possible to strike a balance between incentivizing good projects generating compliance-grade, additional emission reductions while screening out low quality projects that yield questionable credits.

There are checks and balances built in to offset regimes, and these can be strengthened and refined with experience. Many offset projects must undergo environmental impact assessment and approval, stakeholder consultations are required at local and global level, and credits are issued only after emission reductions have been generated (or permanence ensured) following a two-step process involving separate audits undertaken by independent third parties.

Offset regimes are relatively new, with many actors – including project owners, developers, and regulators – stepping onto a new learning curve, being greeted by a range of interpretations in implementing guidelines, dealing with uncertainty in the size and shape of the compliance market post-2012, and confronting other issues from which market participants and stakeholders are learning. These experiences are informing and improving both compliance and voluntary offset regimes. As experience grows, offset mechanisms can be expected to operate more effectively, with greater transparency, consistency and efficiency. The potential of offsets should not be foregone due to imperfect implementation at this early stage. Camco strongly supports applying the lessons learned and experience to date in designing a sound regime to help California achieve its climate change objectives.

Thank you again for the opportunity to offer comments.

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