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October 26, 2023

California Air Resources Board
1001 I St.
Sacramento, CA 95814

RE: 3Degrees Comments in Response to October 5 Workshop: Potential Amendments to the Cap-and-Trade Regulation

Dear Air Resources Board (ARB) and Staff,

Thank you for the opportunity to provide comments in response to the October 5, 2023 workshop regarding potential changes to the Cap-and-Trade program.

3Degrees Group Inc. (3Degrees) is a global climate and clean energy solutions provider. We deliver a full suite of clean energy and decarbonization solutions to help global Fortune 500 companies, utilities, and other organizations achieve their climate goals and address emissions in the fight against climate change. The 3Degrees team provides expertise on global environmental commodities, renewable energy and carbon project development, transportation decarbonization, as well as electric and gas utility voluntary programs. We are also a leading offset project developer, working with dozens of domestic livestock offset projects to issue credits into ARB's Cap-and-Trade program.

The following comments outline our recommendations for the Cap-and-Trade program with an emphasis on maintaining the operability, integrity, and effectiveness of the program as it pertains to (I) renewable electricity accounting and (II) offsets.

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I. Renewable Electricity

ARB should ensure that allowances for the voluntary renewable electricity (VRE) program are replenished and remain available in the long-term.

In line with the comments submitted by the Center for Resource Solutions, 3Degrees strongly supports the continuation of the VRE program in order to protect the emissions reduction benefits that the VRE market provides for the state. The current VRE allowance reserve account could be depleted as early as next year. Without the necessary set-aside of these allowances, there would be no cost-effective mechanism to ensure that VRE purchases are counted towards statewide emissions reductions.

The VRE program is integral to maintaining the Green-e® certification of RECs, which is not only the preferred certification for corporate voluntary purchasers, but also a requirement for many California utility green tariff programs. The Green-e Energy National Standard requires the retirement of allowances in association with Green-e Energy certified VRE from California. Where VRE program allowances are unavailable, eligible carbon allowances must be purchased in association with the VRE, imposing an additional cost burden on the VRE market that should be borne by the emitters. Should VRE purchasers choose not to purchase carbon allowances due to the costs, these VRE purchases will cease to contribute to emissions reductions beyond the cap and instead subsidize compliance for obligated entities. Such an outcome could result in investments in VRE leaving the state of California.

Additionally, since avoided GHG emissions are explicitly included in the definition of a REC in California, it is unclear what effect choosing not to purchase carbon allowances would have on a VRE supplier. It is critical that demand in the VRE market is not diminished or undermined by the Cap-and-Trade program, or else California's ability to meet its emissions reduction targets will be put at risk.

When electricity from specified sources is imported from unlinked jurisdictions, ARB should require REC reporting and retirement.

In order to prevent double counting issues and to ensure emissions reductions are appropriately accounted for across the western energy market, it is crucial that REC serial numbers associated with imported electricity are reported and those RECs are retired. This does not mean a requirement to retire RECs to substantiate GHG reductions under the Cap-and-Trade program, as offsets and allowances do, but rather to make certain that the RECs and their inherent emissions profiles are not attributed to emissions reductions in other jurisdictions.

Further, according to Slide 19 of the workshop afternoon session, "any changes to CARB's GHG accounting for electricity imports must meet state and federal requirements and support implementation of CARB's programs," and, "CARB is not considering fundamental changes to how electricity imports are regulated." Requiring REC reporting and retirement in line with the above recommendation is not a fundamental change to electricity import regulation, and therefore accomplishes both of these objectives.

A REC reporting requirement would align the Cap-and-Trade program's treatment of RECs with the definition of RECs under existing California law and with the use of RECs under other established programs. For example, pursuant to Cal. Pub. Util. Code § 399.12(H)(1)-(2), RECs include, "all renewable and environmental attributes associated with the production of electricity from the eligible renewable energy resource." Under this definition, RECs include the attributes associated with power generated by a zero-emission renewable resource. If that power generated by a zero-emission renewable resource is imported and reported as zero-emissions specified power under the Cap-and-Trade program, and then the associated REC is used to substantiate zero-emission power under any other program, double counting would occur.

II. Offsets

Compliance offsets are a critical compliance mechanism and should have a definitive role in post-2030 program design.

3Degrees strongly recommends that ARB continue to allow offsets to play a role in post-2030 compliance obligations. Offsets directly reflect a slew of environmental benefits and their sale provides a key market signal on the value of GHG reduction projects across many sectors. Offset revenue incentivizes the development of emissions reduction projects, especially where maintenance of such projects is otherwise cost-prohibitive for their owners. For covered entities, offsets have the potential to significantly reduce compliance costs for covered entities as the price of allowances increases. This cost savings will have an impact on California rate-payers.

In line with comments submitted by the Verified Emission Reduction Association (VERA), we also advocate for the limit on offset usage be increased to at least 8% post-2030. Increases in the offset limit will be balanced out by the significant decline in the emissions cap. By drawing up the usage limit, ARB can help ensure that the offset market remains stable and offsets remain a cost-effective means of compliance.

In conjunction with the Low Carbon Fuel Standard (LCFS), the offset program in the Cap-and-Trade program provides a means for dairy digester projects to monetize their avoided methane benefit. While we also strongly believe that the LCFS program should continue to allow credit generation from projects that prevent the release of methane emissions, their access to the offset market is made even more critical by the potential phase-out under the LCFS. California has made progress but is still not fully on track for 2025 methane emission reduction goals under SB 1383. Stable and long-term incentives to avoid methane emissions will be essential to the maintenance and operations and continued methane avoidance of the existing digester projects that have been incentivized in part by the LCFS market. The long-term continuation of the offset market under the Cap-and-Trade program is a crucial component to meeting the state's methane emissions reduction targets.

We recommend that ARB continue the valuable work of the offset protocol taskforce (OPT) and consider adding new offset protocols, in particular, for Alternative Manure Management Projects (AMMP).

As previously stated in our July 14, 2021 comments in response to the ARB Research Division's "Draft Analysis of Progress toward Achieving the 2030 Dairy and Livestock Sector Methane Emission Target," 3Degrees strongly supports the development of an AMMP compliance offset protocol that expands crediting for avoiding methane at livestock operations beyond digesters. AMMPs carry significant potential to realize emission reductions with direct environmental benefits to the state. California must seize all opportunities for methane reduction and the scale of the potential methane avoidance from AMMPs could be vital to moving the state towards achieving its 2030 goals. Enabling AMMPs to generate compliance offsets will help scale this sector quickly while enabling the viability of methane avoidance projects at many of the smaller dairies in the state.

3Degrees appreciates this opportunity to provide feedback and we look forward to continuing to work with ARB on the success of the Cap-and-Trade program. Please reach out with any questions or for further discussion.

Sincerely,

/s/ Helen Kemp

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