



October 12, 2017

Hello – please accept these comments on the inquiry about carbon markets on behalf of my consulting practice, [Lightstone Consulting, LLC](#) and its business service, [Evergreen Carbon](#). I provide carbon offsetting for the voluntary marketplace. I have a wealth of experience doing auditing and other GHG assessments of both carbon offset projects and facility inventories. I have conducted work under a variety of GHG programs and in multiple industry sectors. I do assessment work for the American National Standards Institute (ANSI) GHG accreditation program and I have conducted work for them under a variety of GHG registries, compliance programs (Ontario, Québec, B.C.) and voluntary GHG registry programs (CAR, ACR, VCS). I am familiar with the California Cap and Trade legislation, AB32, as well.

Carbon Markets for the Clean Air Rule

First to discuss carbon markets, it is helpful to clearly define what a carbon credit is, and how carbon credits are different than allowances issued by a state, province or country.

A carbon credit represents a tonne of CO₂ equivalency (CO₂e) that is either sequestered, destroyed or avoided. A Real carbon credit is only generated under a GHG Registry or under a compliance program, such as California's AB32. AB32 allows 8% of a company's compliance to come from carbon credits. The available CA carbon credits are generated inside and outside of the state, but all are developed using the California protocols, which are based on the Climate Action Reserve protocols and verified by CARB certified third party verifiers. The following list shows the programs identified by Ecology and the type of Carbon Credits they accept.

- European Union Emission Trading System - UNFCCC CDM program
- New Zealand – UNFCCC CDM (internal NZ projects – but are keen to open up credit acceptance under the Paris agreement)
- South Korea – UNFCCC CDM, with a focus on Korean projects – but it is understood that carbon credits will be also source outside the country in Phase II of their compliance program.
- Western Climate Initiative (includes California and Canadian province of Québec); - Carbon projects are based on Climate Action Reserve protocols, with Ontario and Québec initially focusing on Ozone Depleting Substances, Landfill Gas destruction, and Coal Mine methane destruction.

All these jurisdictions use allowances that are issued by the government. Allowances also measured in a tonne of CO₂e, and do not actually represent a tonne of carbon that has been sequestered (destroyed or avoided). An allowance is a permission to pollute GHG emissions. Allowances are often issued free to companies (facilities) that fall under a compliance program, with a slow ratcheting down of free allowances.

The Korean ETS did just this. From 2015-2017, for most industries, the allowances are free. Sufficient allowances are issued to cover the companies that are under compliance, with about 5% in reserve. Allocation is based on an average of facilities' baseline emissions. The reserve is used for market stabilization and servicing new entrants to the Korean compliance market. Phase II of KETS, will see 97%



free allowances, and 3% for a fee. There is no allocation for any company outside the Korean GHG regulation. This is the same situation for the all other jurisdictions that issue allowances.

Allowances not given away are made available via auction, with a set price. In S. Korea, the initial offering was set at EUR 7. In CA the 2017 allowance auction price was US \$13.57. The revenue gained from the allowance auction belongs to the government that issued them.

Another feature of the allowance markets is that there is a secondary marketplace, where a company's excess allowances may be traded to companies that need more allowances than what is allotted to them directly by their government. Yet again, the primary and secondary allowance markets are only for companies under a particular jurisdiction's compliance regime. There is no circumstance for a Washington based business to purchase allowances from a Cap and Trade program where they are not subject to compliance without issuing our own allowances, and structure our market similar to a jurisdiction currently issuing allowances. As I'm sure Ecology understands, California, Ontario and Québec are under an international agreement (MOU), setting principles of the shared WCI marketplace.

Again, an allowance is **not** equivalent to a carbon credit. Carbon Credits are issued *ex post*, and represents an actual reduction of GHGs from a project that has been registered and independently third party validated and verified. An allowance is either received from a jurisdiction or is a tax (fee) paid to a jurisdiction for the right to pollute GHGs. Finally, it makes no logical sense for a WA company pay money to another jurisdiction for allowances that do not represent actual real GHG reductions. The funds do not wind up in WA's coffers to be used for government funded projects that reduce emissions – transportation projects and the like. The funds would wind up in CA's budget or another jurisdiction's, if somehow WA companies could buy allowances, which they can't without an MOU in place.

Recommendations:

Be clear when describing allowances and carbon credits. The former represents a mechanism to collect a fee or set a limit, while the later represent real verified Greenhouse Gas reductions.

The compliance programs that does issue allowances where it makes the best sense for WA to join, will be the WCI - California/Québec/Ontario auction. These jurisdictions have signed an MOU, where they share the allowance auctions – pooling the allowances – setting a price across these three jurisdictions. As Ecology recognizes, it is important to look outside our borders. I encourage Ecology, working with the governor's office and the legislator, to rejoin WCI (WA was a founding member, before leaving the organization), and sign an MOU with CA/Québec/Ontario - where WA will issue its own allowances – and widening the pool for WA companies to participate. This may likely be the path for OR, so it makes sense for WA to follow suit. WCI is the correct and proper choice for WA, without a doubt. We have close ties with this North American marketplace.

Another recommendation is to expand the source of ERU's for WA. Up in British Colombia, the Pacific Climate Trust (PCT), as an arm of the Ministry of Environment, was tasked with overseeing sufficient Carbon Credits for the province (and the quality of such credits). The legislation required all carbon



credits to be generated within the province – just as the WA CAR requires all ERUs to be from within WA.

The PCT, when audited by their Federal Gov't, was discovered to have allowed significant credits with faulty baseline conditions. This meant that there were far fewer “Real” carbon credits than what was claimed by PCT. The PCT, responsible for quality and quantity of projects in B.C. to meet provincial demand, failed. The PCT was, in a disheartening way, dissolved by the legislator and all ongoing carbon projects in the Province are suspect.

The lesson here is to look outside of WA State for ERU sources. While recognizing that “allowances” from other jurisdictions is not a realistic solution to sourcing sufficient ERUs for the WA compliance companies, till WA is able to issue our own allowances, joining another similar national or international program.

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