bluesource

February 14, 2019

To: The Oregon Joint Committee on Carbon Reduction
CC: Co-Chair Senator Michael Dembrow
Co-Chair Representative Karin Power
Representative Ken Helm

Subject: Comments on House Bill 2020

Bluesource appreciates the opportunity to provide comments on the proposed House Bill 2020. We applaud Oregon's efforts to meaningfully combat climate change and support HB 2020's ambitious long-term greenhouse gas reduction goals. Bluesource is the most established GHG emission reduction project developer in the United States, having worked on over 200 GHG reduction projects since we took up the fight against climate change in 1996. Over the last 23 years we've learned a lot about operating in compliance and voluntary carbon markets and what it takes to drive real investments in real reductions. We are encouraged by the approach HB 2020 is taking but have a few suggestions as to how such a program could be even more effective.

Section 19(1)(a)

This section specifies that Offset projects "*must be located in the United States or in a jurisdiction with which the State of Oregon has entered into a linkage agreement*." It should be noted that other linked jurisdictions may allow offset projects from outside of their specific jurisdiction in the same way that Oregon would allow offset projects from elsewhere in the United States. For example, before Ontario withdrew from the Western Climate Initiative, it would have allowed offsets from across Canada even though certain other provinces were not linked in the WCI themselves.

- To prevent certain offsets from inadvertently being excluded and creating substantial challenges around fungibility and tracking of offsets, this text could be changed to, "*must be located in the United States or ~~in~~ approved by a jurisdiction with which the State of Oregon has entered into a linkage agreement*."

Section 19(2)(a)

Bluesource supports the proposed 8% offset utilization limit as this will provide cost containment value to Oregon's consumers, ratepayers and businesses.

Bluesource does not support the requirement that "*no more than four percent of a covered entity's compliance obligation may be met by surrendering offset credits that are sourced from offset projects that do not provide direct environmental benefits in this state*."

- First and foremost, the definition of "Direct environmental benefits in this state" explicitly refers to reductions in pollution other than greenhouse gases (air and water pollutants). While this is a noble cause, it requires a GHG emission reduction to achieve *more* than a GHG emission reduction itself. This is out of scope with the stated purpose in HB2020's Section 1, "the goal of this state to achieve a reduction in greenhouse gas emissions levels in Oregon."

- Science has shown that greenhouse gases are comingled in the atmosphere on a global basis, and an emission reduction provides equal benefit to Oregon regardless of where in the world it is located. This means that all GHG reductions provide direct environmental benefits in this state through preservation of snowpack, prevention of sea level rise and a myriad of other direct environmental benefits.
- Looking to other Western Climate Initiative jurisdictions, substantial market uncertainty has been introduced in California, resulting in reduced investments in GHG reduction projects, since the same premise was introduced there. Oregon would not benefit from such uncertainty and lack of adoption of cost-containment measures so early in its program.
- The provision subjects Oregon to potential legal challenges under the interstate commerce clause through prioritization of products that disproportionally benefit it. The likelihood of pricing differences between offsets that would provide a direct environmental benefit to Oregon (as currently defined) and offsets that do not would provide fodder for such a case.
- Last but not least, offsets provide what we call, "climate diplomacy." Bluesource has witnessed positive behavioral change in many industries, including the natural lands sector, both in Oregon and around the country, as a result of offset programs in other states. A country-wide offsets program is an opportunity to influence other states to take climate action who otherwise are unlikely to do so. The proposed direct environmental benefit requirement cuts this influence in half.

Section 19(2)(b)

The provisions in this section introduce ambiguity as to how the number of credits that can be used by certain compliance entities. This will create substantial uncertainty in the market because total market size will be a complete unknown. Such uncertainty will discourage investments in GHG reduction technologies both within emitters' fence lines and outside of the capped sectors. Bluesource recommends being more specific about how individual entities' offset usage limits may be reduced, or at the very least, including in the text a range of potential outcomes that is as narrow as possible.

Section 19(3)(a)

While Bluesource agrees with the proposed text to consider protocols for offset projects established by other states, we suggest the text be more specific about certain protocols to be accepted, much as California did in its legislation to encourage early action and ensure adequate offset supply (cost containment) in the early years of its program. *For example only*, HB2020 could mention the following protocols, among others, would be accepted:

- CA Air Resources Board – Compliance Offset Protocol U.S. Forest Projects, adopted June 25, 2015

- Climate Action Reserve – Grassland Project Protocol, Version 2.0, adopted January 18, 2017

Sections 19(3)(d) and 19(3)(e)

Invalidation provisions have been the cause of significant market inefficiency in other jurisdictions, so communicating clear rules early on is critical. Bluesource recommends the following approach:

- Impose seller liability for sources of invalidation under the control of the seller. The sellers of offset credits should be liable to replace any credits associated with fraudulent double-selling (defined as credits which have been issued in any other voluntary or mandatory program within the same offset project boundary and for the same reporting period in which Oregon offset credits were issued).
- Create an insurance pool or an "offset integrity account." All projects surrender 3% of issued credits into this environmental integrity account at the time of issuance.
- Replace invalidated credits from all other causes of invalidation from the offset integrity account. If offset credits are issued and it is later determined that the third-party verifier, registry and the office review failed to uncover that either a violation of regulatory compliance or a material overstatement occurred, invalidated credits should be replaced from the offset integrity account.

- If at any point offset sellers are not able to replace invalidated credits they are liable for, the environmental integrity account can also be called upon to make the system whole.

Thank you very much for the opportunity to comment. We would be happy to provide further insight or answer questions if we can be of help.

Sincerely,

Kevin Townsend
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Bluesource