

10 February 2012

Nicole Singh, Acting Executive Director
Regional Greenhouse Gas Initiative, Inc.
90 Church Street, 4th Floor
New York, NY 10007

Dear Ms. Singh:

The Verified Carbon Standard Association (VCSA) welcomes the opportunity to offer comments as part of the 2012 RGGI program review and its solicitation for input on the role of offsets as a flexibility mechanism. We appreciate the effort undertaken by RGGI to consider possible enhancements to its precedent-setting regional cap and trade program.

Founded in 2005 by The Climate Group, the International Emissions Trading Association, the World Business Council for Sustainable Development and the World Economic Forum, the VCSA administers one of the world's leading voluntary greenhouse gas (GHG) emission reduction programs with over 81 million Verified Carbon Units (VCUs) issued from more than 600 projects registered worldwide. VCSA is eager to assist in the development of a robust and efficient regional cap and trade program. We have many years of experience in building a strong, coherent and well-respected global GHG emission reduction program and would like to share our experiences and insights. More information about VCSA and the VCS Program can be found on our website at www.v-c-s.org.

Our comments focus on the questions raised in the January 24, 2012 "Learning Session on Flexibility Mechanisms" document regarding offset supply and whether changes should be made to the RGGI offset program. The VCSA is pleased to offer suggestions aimed at helping to bring greater efficiency, transparency and certainty to the RGGI offset program. Specifically, we recommend that RGGI expand the number of eligible offset project types by recognizing existing, well-established carbon offset standards.

Why are offsets not currently in use in the RGGI region?

The current surplus of allowances relative to demand has contributed in part to the lack of demand for offsets in the RGGI states. But even if RGGI were to take steps to reduce the allowance surplus and foster a demand for offsets, there exist aspects of the RGGI offset rules that are likely to impede the emergence of a sustainable supply of offsets.

To increase the opportunity for offsets to play a contributing role in the RGGI emissions reduction program, we recommend that RGGI initiate an open, transparent process for evaluating and recognizing established high quality carbon offset programs including the VCS. We suggest that RGGI adopt selection criteria similar to those introduced in U.S. Senate bill S. 2729 during the 2009 Congressional debate over national cap and trade legislation for recognizing early action offset programs. That bill directed the Administrator of EPA, in conjunction with the Secretary of Agriculture, to approve any regulatory or voluntary greenhouse gas emission offset program that:

- has developed or approved offset project-type standards, methodologies, and protocols through a public consultation process or a public peer review process;
- has made available to the public the standards, methodologies, and protocols of the program for emission reduction projects; requires that all emission reductions be verified by a State regulatory agency or an accredited third-party independent verification entity;

- requires that all issued credits be registered in a publicly accessible registry, with individual serial numbers assigned for each ton of carbon dioxide equivalent emission reductions; and
- ensures that no credits are issued for activities for which the administrator of the program has funded, solicited, or served as a fund administrator for the development of the project or activity that caused the emission reduction.

The VCS Program meets all of these requirements. Relying on existing GHG programs will allow the RGGI offset program to deliver results faster and at less cost, especially because the rules of the GHG programs are already well established and they have a proven track record of developing sound methodologies (or protocols), providing oversight of auditors, and establishing robust registry systems.

Methodology Development and Approval

By recognizing established GHG programs and, by extension, their existing methodology development and approval processes, RGGI will be able to tap a broad pool of expertise and the wider community of innovation that will enhance the impact of the program and lower its administrative cost. The methodologies developed under those programs are readily adaptable to the requirements of compliance regimes. As we are witnessing in California, methodologies developed under established programs like the Climate Action Reserve and VCS have been modified, or are being considered for modification, and adoption by the Air Resources Board for use in that state's cap and trade program. Likewise, the Australian government has approved the use of Verified Carbon Units (VCUs) issued under VCS-approved methodologies by businesses seeking to voluntarily offset their emissions under that country's National Carbon Offset Standard (NCOS).

The VCS methodology approval process was designed based on a careful review of existing approaches, and as a result addresses some of the major shortcomings related to developing methodologies in a top-down fashion. The VCS Program employs a bottom-up approach, whereby the VCS sets the rules and procedures for methodology development and then allows anybody to develop a methodology for a broad range of project types. As a result, the VCS Program does not make decisions regarding which methodologies are developed, but rather relies on the initiative and entrepreneurship of market stakeholders. In addition, the VCS methodology approval process relies on qualified third-party experts (ie, validators with both sufficient technical expertise regarding the project type at hand, as well as a sufficient auditing track record), thereby automatically leveraging the relevant expertise in the market. Importantly, relying on validators has resulted in VCS methodologies being highly usable from an auditing perspective.

We note that RGGI offset requirements specify that projects must meet "category-specific benchmarks and performance standards designed to ensure that approved offset projects represent activities that significantly exceed standard market practice." The VCSA has recently issued requirements for the development of standardized methods (performance benchmarks and positive lists) for determining additionality and crediting baselines. This is groundbreaking comprehensive work that goes beyond the current application of standardized methods and sets out detailed rules and procedures that will help foster the development of such methods. We would welcome the opportunity to brief the RGGI states on this work and its applicability to the RGGI offsets program.

Given that RGGI rules include the use of Certified Emission Reductions (CERs) issued under the UN's Clean Development Mechanism, we recommend that RGGI broaden its recognition of international offset credits to include those issued for Reducing Emissions from Deforestation and Degradation (REDD), both at the project and jurisdictional levels. California's cap and trade regulations give the state's ARB the discretion to accept REDD credits for compliance purposes. Similar action by RGGI would further signal the compliance market's readiness to address the second largest source of GHG emissions worldwide. The VCSA has been a leader in the development of credible REDD methodologies and REDD accounting. For example, collaboration between the VCSA's Advisory Committee on Jurisdictional and Nested REDD and the Governors' Climate and Forests Taskforce (GCF) REDD+ Offset Working Group (ROW) will generate, in part, recommendations to California's ARB on operationalizing its regulatory authority regarding REDD. The VCSA stands ready to assist the RGGI states should they decide to explore the opportunity for recognizing REDD credits.

Validation and Verification

Third-party verification is the core of quality assurance and under the VCS Program all projects must be validated and all emission reductions must be verified by approved validation/verification bodies (VVBs). VVBs must be approved to validate and/or verify to VCS criteria. Entities in good standing under the UN Clean Development Mechanism (CDM) and California's Climate Action Reserve are approved to work under the VCS Program, as are VVBs accredited under ISO 14065 for scope VCS by the American International Standards Organization (ANSI). As the reference to U.S. Senate bill S. 2729 indicates, having appropriate oversight is critical to the success and credibility of any offset program, and programs like the VCS have significant experience in this regard.

Registry System

VCS credits are issued and listed in a state-of-the-art registry system that allows the tracking of all Verified Carbon Units (VCUs) from issuance to retirement. The VCS system was the first multiple-registry system in the voluntary carbon market, enabling healthy competition among registry providers and allowing market participants to choose a registry of their choice. The VCS registry system is a flexible and scalable system that can readily be expanded to connect VCU buyers and suppliers with new markets. In addition to the requirements set forth in U.S. Senate bill S. 2729, VCS registry operators must meet strict capitalization, transparency and other requirements which we consider critical for the robustness of our registry system.

The system currently consists of three international registry operators:

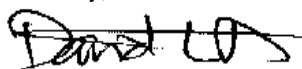
- NYSE Blue: a leading environmental market infrastructure provider;
- Markit: a leading international financial markets meta-registry; and
- CDC Climat R & S: a subsidiary of Caisse des Dépôts, a leading French financial institution and developer of CO2 registries in Europe.

The VCS Program has been recognized as a complement to mandatory and voluntary GHG programs administered by national governments around the world. In Australia, the VCS Program has been designated as a "prescribed non-CFI offsets scheme" under that country's Carbon Farming Initiative (CFI), making it a recognized program for the creation of offset projects that qualify for issuance of credits under that country's compliance and voluntary programs. In Thailand, Verified Carbon Units (VCUs) issued by the VCSA are eligible to be tagged with the government's Crown Standard, which recognizes offset projects that generate socio-economic and environmental benefits in addition to mitigating GHG emissions. These approaches illustrate how the quality assurance provided by a third-party program like the VCS can be leveraged by governments, whether in whole or in part.

Thank you for the opportunity to provide input to the development of an environmentally and administratively effective regional offsets program. Adopting the recommendation we propose will minimize future costs of compliance, facilitate voluntary private sector participation in the carbon market and reduce RGGI's costs to administer the offsets program while supporting the development of innovative projects and technologies that reduce or sequester carbon.

Should you have any questions, please do not hesitate to contact me by telephone (+1 202 296 1427) or email (dantonioli@v-c-s.org).

Sincerely,



David Antonioli
Chief Executive Officer