



SoCal Climate Solutions Exchange

Technical Advisory Group Meeting

October 2, 2008

Regulation XXVII – Climate Change

- 3 Proposed Rules – 2 stages
- Rule 2700 – General
- Rule 2701 – SoCal Climate Solutions Exchange
 - Set hearing 2700 and 2701 in October for November public hearing
- Rule 2702 – Greenhouse Gas Air Quality Investment Program (GHG AQIP)
 - Set hearing in November or December
 - Program EA for additional protocols

Other Changes

- Protocols moved from Rule 2700 to Rule 2701
- Removed language regarding projects in other Districts

Protocols

- CAPCOA working with CARB
- Use expertise and resources to avoid duplication and increase protocols available
- 3 CARB approved protocols included in PR 2701
- Additional protocols under consideration by staff:
 - Lawnmowers
 - Leaf blowers
 - Boilers
 - Truck stop electrification
 - High GWP refrigerants

Summary of Key Comments Received

- Some questions at public workshop
- 3 comment letters received
- Following slides summarize key comments and staff responses

Key Comments

- No need for a local program
 - CCAR can fulfill this role
 - Fragmentation may occur
 - Provide local option
- Insufficient checks and balances are proposed
 - District would be responsible for too many roles
 - Core mission could be undermined
- District should not approve project and verify reductions
 - Remain open to independent verifiers

Staff Response

- Staff does not agree - this program is needed
- Can provide high quality, certified reductions
- Can achieve local investment, jobs, technology deployment, co-benefits
- Addresses real, pressing, problems

“F.T.C. Asks if Carbon-Offset Money is Well Spent” (Jan. 9, 2008)

The New York Times

F.T.C. Asks if Carbon-Offset Money Is Well Spent

Dot Earth: Six Sins of Greenwashing - a Primer

on carbon offsets.

As more companies use offset programs to create an environmental halo over their products, the commission said it was growing increasingly concerned that some green marketing assertions were not substantiated. Environmentalists have a word for such misleading advertising: “greenwashing.”

With the rapid growth of green programs like carbon offsets, “there’s a heightened potential for deception,” said Deborah Platt Majoras, chairwoman of the commission.

The F.T.C. has not updated its environmental advertising guidelines, known as the Green Guides, since 1998. Back then, the agency did not create definitions for phrases that are common now — like renewable energy, carbon offsets and sustainability.

For now, it is soliciting comments on how to update its guidelines and is gathering information about how carbon-offset programs work.

The Federal Trade Commission, which regulates advertising claims, raised the question Tuesday in its first hearing in a series on green marketing, this one focusing

“Scrutiny Rises Over Carbon-Offset Sales Process” (Jan. 9, 2008)

THE WALL STREET JOURNAL.

Scrutiny Rises Over Carbon-Offset Sales Process

By JEFFREY BALL and IAN TALLEY
January 9, 2008; Page A13

The government is scrutinizing the market for global-warming-emission offsets, part of a backlash against the market that could increase industry's costs in complying with any new environmental rules.

Offsets are pieces of paper said to represent global-warming emissions avoided somewhere else on the planet. The offsets are being bought by the likes of corporations that want to project an environmentally friendly image and consumers who want to make their airplane flights “carbon neutral.”

Even though the U.S. hasn't imposed a limit on global-warming emissions, purchases of these voluntary offsets have soared over the past two years. So have questions about whether the money is funding real emission cuts or not.

The offsets are said to represent emissions avoided through projects such as installing wind turbines or planting trees, often in the developing world. Consumers are buying the offsets from a bevy of online sellers to counteract the emissions produced by daily activities.

But Federal Trade Commission officials said at a workshop on the issue that they are concerned that consumers who buy carbon offsets aren't able to verify whether they are environmentally legitimate.

The FTC watches for deceptive trade practices and can bring suits against those who violate commission rules. The commission long has issued guidelines about what environmental claims companies may make, such as for recycling. Those Green Guides were due to be updated next year, but the commission moved up the review because of the recent surge in green marketing. As part of the review, the FTC is focusing on emission offsets, which essentially didn't exist when it last updated the guidelines, in 1998.

Voluntary carbon offsets typically sell for as little as \$5. Each offset represents one ton of carbon dioxide said to be kept out of the atmosphere. The businesses are betting that the relatively cheap voluntary offsets they buy up now will count toward their cleanup obligation under any eventual rule. That is far cheaper for most companies than retooling their operations to curb their own emissions.

The voluntary carbon offsets at issue in the U.S. differ from the pollution permits traded under the Kyoto Protocol, the international global-warming treaty. The legitimacy of those permits is regulated by a panel of United Nations-sanctioned officials. The market for voluntary credits has no mandatory oversight.

The market for regulated-emission permits tripled in 2006, to about \$30 billion, according to the World Bank. The voluntary market is a fraction of that size. Yet it, too, is growing fast. It shot up to \$91 million in 2006, estimated a recent report from research firms Ecosystem Marketplace and New Energy Finance.

The FTC is only beginning to look at the issue. But it's the latest government entity to raise questions about the market for a commodity that essentially didn't exist until a few years ago.

In Europe, which began capping carbon emissions in 2005 and now is toughening those rules, regulators are considering tighter limits on companies' ability to use cheap carbon offsets generated in other countries to minimize their compliance costs. In Congress, where proposals are being debated to limit global-warming emissions from the U.S., several lawmakers have proposed similar moves.

Robert Maddox, director of the utility program at Sterling Planet, a large retailer of carbon offsets, said he believes existing market standards are sufficient. “If it becomes too regimented or cost-prohibitive, it could stunt this evolving market.”

“The Trouble With Markets for Carbon” (June 20, 2008)

The New York Times



The Trouble With Markets For Carbon

By JAMES KANTER

BRUSSELS — As the United States moves toward taking action on global warming, practical experience with carbon markets in the European Union raises a critical question: Will such systems ever work?

Backers of these markets, which involve setting limits on greenhouse gases and then allowing companies to buy and sell emission permits, see the approach as one of the cheapest and most effective ways to control the gases in advanced economies. The presidential candidates Barack Obama and John McCain have both endorsed the idea.

Yet in Europe, which created the world's largest greenhouse gas market three years ago, early evidence suggests the whole approach could fail. Carbon dioxide emissions are still rising in many industries, not falling.

“We currently are in danger of losing yet another decade in the fight against global warming,” said Hugo Robinson of Open Europe, a research group in London.

◆ This week, the European Envi-
Continued on Page 5

giant, but ultimately doomed, hedge funds.

Two executives who oversaw the funds, Ralph R. Cioffi and Matthew M. Tannin, did not disclose that the funds were plunging in value until it was too late, the authorities say. On Thursday morning, the pair surrendered to federal agents and were charged with nine counts of securities, mail and wire fraud.

Whatever the outcome, the case spotlights one of the most vexing problems confronting Wall Street as the credit crisis plays out: How to value tricky investments linked to subprime mortgages and other risky debt.

As the mortgage market slumped last spring, authorities say, Mr. Cioffi valued one of his funds as having lost 6.5 percent in April. But colleagues at Bear placed far lower values on investments in that fund. They said the fund had lost 18.97 percent.

All across Wall Street, similar battles are playing out inside banks, albeit without the legal drama. Many banks are struggling to value the assets they hold, raising doubt among many investors about those companies' financial health.

“It's a humongous problem for Wall Street,” said Michael Young, a lawyer with Willkie Farr & Gallagher. “These days these valuation obstacles are at the core of the write-downs.”

Mr. Cioffi and Mr. Tannin are the first Wall Street executives to face criminal charges linked to the credit mess. But many other bank executives

Continued on Page 2



Staff Response, Con't.

- Critical that any type of credit, offset, or certified reductions be handled properly at all stages
- Staff understands concerns with the District having too many roles
- History has shown problems with 3rd party involvement

Problems with 3rd-Party Involvement

- BP tank inspections
- Service station rewiring
- Certified Permit Processor (CPP)
- RECLAIM broker criminal activity

BP Tank Inspections by Independent Third Party

Daily Breeze
www.dailybreeze.com The South Bay's choice for 111 years 25¢

Refinery to pay \$106 million

SETTLEMENT: BP in Carson draws a fine of \$25 million and \$81 million in costs, which the AQMD calls a record.

By Lee Peterson
DAILY BREEZE

Settling two massive lawsuits over thousands of alleged air quality violations, the BP Carson refinery will pay a record \$25 million fine plus \$81 million for fees, plant upgrades and community health projects, air quality officials announced Thursday.

"This settlement is truly unprecedented and historic," said Barry Wallerstein, executive officer of the South Coast Air Quality Management District.

The package of the fine and the other BP payments for a total of \$106 million is believed to be the biggest penalty ever paid in the United States by a single site for air quality transgressions. The total includes \$25 million for one overhaul project that BP committed to last year, before the legal settlement.

While both BP and the AQMD talked Thursday about moving forward cooperatively, the landmark settlement brings to a close a bitter confrontation between the agency and the oil giant.

Two complaints brought by the AQMD against BP — one started in March 2003 and one two months ago — sought nearly \$600 million in proposed penalties for what the AQMD said were errors and knowing lapses in emission control and record-keeping going back to 1994.

The first complaint arose after AQMD inspectors were barred from entering the Carson refinery in 2002 and had to return with sheriff's deputies and an inspection warrant to gain entry — the first and only time AQMD inspectors have had to do that anywhere.

Because of this case, AQMD officials said they will take another look at a more-than-decade-old program by which refineries like BP do a great deal of self-inspection in a kind of honor system.

The settlement will spell major upgrades

REFINERY/A13

Self Inspection By Third Party

- Contractor inspection showed ZERO violations
- AQMD inspection showed **83%** of tanks were in violation



ORIGINAL

PLEASE COMPLETE FORM LEGIBLY IN BLACK INK

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT RULE 463 COMPLIANCE REPORT

Tank No.
Is This a Fo

A. COMP

Company N
Location A
Mailing Ad

Contact Person _____ Title Tank Coordinator
Phone _____

B. INSPECTION CONDUCTED BY:

Name _____ Title Rule 463 Seal Inspector
Company Name _____ Phone _____
Mailing Address _____ City _____ Zip _____

TANK INFORMATION:

Capacity 122400 (bbls) Installation Date _____ Tank Diameter 135.00 (ft) Tank Height 48.00
Product Type CUP Product RVP 7 If Crude, H2S Content n/a (ppm-weight)
Type of Tank: Riveted Welded Other (describe) _____
Color of Shell white Color of Roof white
Roof Type: Pontoon Double Deck Other (describe) _____
External Floating Roof Internal Floating Roof

D. GROUND LEVEL INSPECTION:

1) Product Temperature 60 °F 2) Product Level 37' (ft)
3) List type and location of leaks found in tank shell, mixers, pumps, flanges or valves:
None
4) List any discrepancies between the existing equipment and the equipment description on the Permit.
None
5) Is tank in compliance with Permit conditions? No Yes If no, explain:

INTERNAL FLOATING ROOF TANK:

1) Check vapor space between floating roof and fixed roof with explosimeter. n/a % LEL
2) Conduct visual inspection of roof and secondary seals, if applicable. n/a
3) Are all roof openings covered? No Yes If no, explain in Comments section (J) and proceed to part H(6).

Yes - yes, measure length(s) and show on diagram.
Yes - yes, measure length(s) and show on diagram.
0 > 1/2" 0

of gaps in feet and inches.

Sea
No Yes - yes, measure length(s) and show on diagram.
No Yes - yes, measure length(s) and show on diagram.
No Yes - yes, measure length(s) and show on diagram.
No Yes - yes, measure length(s) and show on diagram.
0 > 1/2" 0

Record the actual width and cumulative length of gaps in feet and inches.
or gaps > 1-1/2" in 1/2"
and lengths.

LEGEND:

Equipment:

- Antirotational device
- Gauge well
- Leg stand
- Roof Drain
- Emergency roof drain
- Vacuum breaker
- Vent
- Platform & Ladder

Defects:

- Leg top
- Leg pin
- Open hatch
- Torn seal
- Primary seal gap
- Secondary seal gap

the best of my (our) knowledge.

Date: _____
Date: _____
Date: _____

Date received _____

Date reviewed _____

repairs

ORIGINAL

PLEASE COMPLETE FORM LEGIBLY IN BLACK INK**

Tank No. 52 SCAQMD Permit No. _____
Is This a Follow-up Inspection? No Yes If yes, Date of Pre

A. COMPANY INFORMATION

Company Name _____
Location Address _____
Mailing Address Same as above
Contact Person _____

EXTERNAL FLOATING ROOF TANK:

- 1) On the Diagram (below) indicate the location of the lad vents or other appurtenances. Note information in relation to any repairs made.
- 2) Describe any uncovered opening found on the roof in the tank.
- 3) Identify any tears in the seal fabric. Describe and indicate the location of any tears.
- 4) Secondary Seal Inspection

J. COMMENTS

Use this section to complete answers to above listed items and to describe repairs made to the tank; include date and time repairs were made.

replace guide pole seal. Tank is in compliance.

J. COMMENTS

Use this section to complete answers to above listed items and to describe repairs made to the tank; include date and time repairs were made.

replace guide pole seal. Tank is in compliance.

K. I (we) certify the foregoing information to be correct and complete to the best of my (our) knowledge.

Inspection completed by: XXX XXX

Date: _____

Compliance status by: XXX XXX

Date: _____

Company Representative: XXX XXX

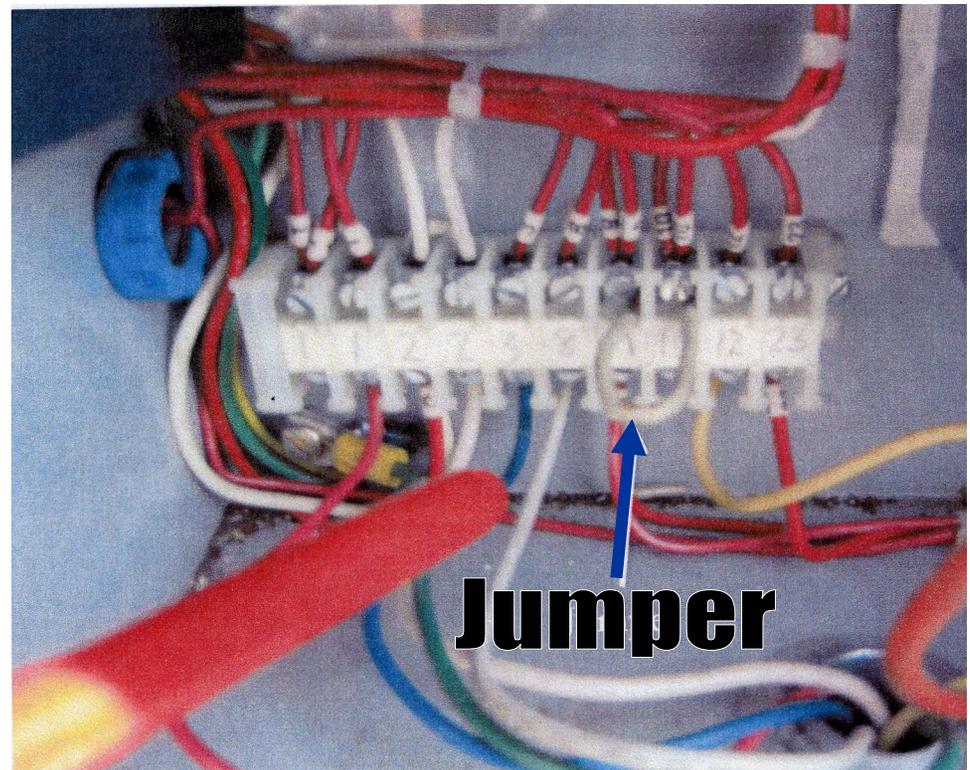
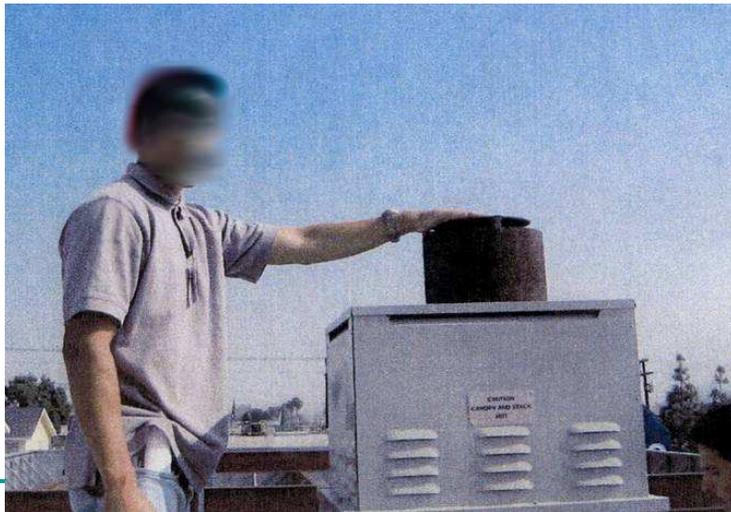
Date: _____

(Certification ID#)

2) Cor
3) Are

Bypass of Controls at Multiple Service Stations

- Vapor control systems modified to bypass incinerator
- No alarms or documentation, appears to be in compliance



CPP Problem

- AQMD certification program for third party Certified Permitting Professionals (CPP)
- CPPs are hired by applicants to prepare and submit complete application packages
- AQMD experience: CPP submitted false data for permit application(s)
- NOV issued
- CPP surrendered certification

RECLAIM Broker Criminal Activity



Up In Smoke

Victims stunned by light sentence in multimillion-dollar smog-credit scam

By [Chip Jacobs](#) 05/01/2008

In the end, Anne Sholtz's punishment for defrauding the visionary smog-credit market she helped design played out much like her entire federal prosecution: with the belief that there was far more to her case than a simple white-collar swindle.

The logo for the Los Angeles Times, featuring the words "Los Angeles Times" in a white, serif font on a dark blue rectangular background.

Ex-Caltech Economist Guilty in Fraud Case

From Times Staff and Wire Reports

April 27, 2005

A former Caltech economist who helped design an air cleanup plan for Southern California's largest firms to buy and sell pollution credits pleaded guilty in federal court Tuesday to defrauding a New York investment firm during a trade she brokered.

Anne Masters Sholtz, 40, of Bradbury faces a possible 27 to 33 months in prison when she is sentenced in July, federal prosecutors said.

AQMD Credit Programs

	Receive \$	Generate Reductions	Verify	Issue	Register	Track Trades
ERCs	N	N	Y	Y	Y	Y
Moyer	Y	Y	Y	n/a	n/a	n/a
1309.1	Y	Y	Y	n/a	n/a	n/a
RTCs	N	N	Y	Y	Y	Y
2202 AQIP Private	N	N	Y	Y	Y	Y
2202 AQIP SCAQMD	Y	Y	Y	n/a	n/a	n/a

AQMD Credit Programs, Con't.

	Receive \$	Generate Reductions	Verify	Issue	Register	Track Trades
RECLAIM AQIP / MITIGATION FEE	Y	Y	Y	Y	Y	Y
MS & AS Credits	N	N	Y	Y	Y	Y
SoCal PR 2700	N	N	Y	Y	Y	Y
SoCal PR 2702	Y	Y	Y	n/a	n/a	n/a

Roles of Different Exchanges

<u>ROLE</u>	SoCal Climate Solutions Exchange	CCAR	CCX	ECX
Protocol Development	✓	✓	✓	✓
Verify	✓	no	no	no
Register	✓	✓	✓	✓
Track Trades	✓	✓	✓	✓
Run Market	?	no	✓	✓

Why is there concern about SoCal Climate Solutions Exchange and its AQIP when RECLAIM AQIP didn't generate the same concerns?

- Same roles for District
- Both help solve problem
- Transparent public process
- Oversight & audits

Key Comments, Con't.

Comment

- Appeal process should be added
- Support protocol development
- Protocols from other entities should be included

Staff Response

- Staff agrees
- Staff appreciates comment
- Will review and consider

Key Comments, Con't.

Comment

- Co-benefits should accrue to the project proponent
- GHG reductions from criteria pollutant rule compliance should be counted toward GHG reduction requirements

Staff Response

- Protocol-specific
- Need to consider each case

Key Comments, Con't.

Comment

- Credits should be generated before they are issued

- District is assuming liability

Staff Response

- Pre-funding may be recommended

 - Emission reduction obligation under contractual agreement not more than R2202

 - No greater than RECLAIM for registration function
-

Key Comments, Con't.

Comment

- Running an exchange
 - Conflict of interest
 - CFTC regulation
- Good to include resolution regarding this program as an option for CEQA, not requirement

Staff Response

- May not do more than current RECLAIM program, government run ≠ conflict (Acid Rain)
- Comment noted

Public Process

- Draft rules sent to CARB for review
- Public Workshop on September 4th
- Notice of Exemption for Rules 2700 and 2701
- Set October for November board hearing for Rules 2700 and 2701
- Additional protocols for public input soon
- Proposed Rule 2702 to follow shortly