

FACTS ABOUT

Livestock Methane Compliance Offset Credits Under Investigation

This document provides additional information regarding the livestock methane compliance offset credits investigation pursuant to section 95985 of the Cap-and-Trade Regulation (Regulation).

Background

The California Air Resources Board (ARB) is investigating if compliance offset credits issued for livestock methane destruction events that took place at the T&M Bos Dairy in Fair Oaks, Indiana may have been generated while the facility was not in compliance with permitting rules of the Indiana Department of Environmental Management's Office of Air Quality. Under section 95985(c)(2) of the Cap-and-Trade Regulation (Regulation), ARB can investigate and invalidate issued compliance offset credits if the offset project activity and implementation of the offset project was not in accordance with all local, state, or national, environmental and health and safety regulations during the Reporting Period for which the compliance offset credit was issued.

Section 95985 of the Regulation establishes a process for ARB to investigate and invalidate issued compliance offset credits. Although ARB believes the greenhouse gas reductions represented by the offsets are real, quantified, and verified reductions, ARB has made an initial determination that compliance offset credits issued for livestock methane destruction events that took place at T&M Bos Dairy may be subject to invalidation pursuant to section 95985. In accordance with section 95985(d) of the Regulation, ARB has blocked transfers of the potentially invalid compliance offset credits until its investigation is completed and a final determination on whether to invalidate any of the compliance offset credits is made by the Executive Officer.

Which compliance offset credits are under investigation?

ARB is investigating compliance offset credits issued for livestock methane destruction events that took place at the T&M Bos Dairy in Fair Oaks, Indiana. The projects under investigation are identified as "Under Review" on the ARB offset credit issuance website available at:

http://www.arb.ca.gov/cc/capandtrade/offsets/issuance/arb_offset_credit_issuance_table.pdf.

At this time, ARB is making no judgment about the validity of the compliance offset credits under investigation. The offsets remain valid until the investigation is complete and the Executive Officer makes a final determination.

What happens to the compliance offset credits during the investigation?

Per section 95985(d) of the Regulation, ARB must block transfers of the compliance offset credits under investigation until a final determination of invalidation is made. In order to block transfers during the period of review, ARB has temporarily "frozen" the compliance offset credits in the accounts in the Compliance Instrument Tracking System Service (CITSS) in which they are currently deposited.

The compliance offset credits issued for livestock methane destruction at the T&M Bos Dairy were blocked on September 29, 2015. ARB did not take ownership of the compliance offset credits. They simply remained in the CITSS accounts in which they were residing.

Once the investigation is completed, all compliance offset credits determined to meet the requirements of the Regulation will be unblocked.

How were affected parties notified of the investigation?

All Primary Account Representatives (PAR) and Alternate Account Representatives (AAR) for CITSS accounts were notified of the compliance offset credit investigation on September 29, 2015. All parties that held any compliance offset credits under review received a separate email notification on September 29, 2015, serving as the official notification of the compliance offset credit investigation under section 95985(f) of the Regulation.

This notification detailed the process by which ARB would block the transfer of these compliance offset credits and outlined the investigation timeline.

What is the timeline for the investigation?

From September 29, 2015, holders of the compliance offset credits under investigation have 25 calendar days to provide additional information to assist ARB in the investigation. ARB may also request specific additional information to aid in the investigation. Once all information is submitted, the Executive Officer has 30 calendar days from the day that all the information is received to make a final determination whether to invalidate any compliance offset credits under investigation.

How will ARB keep affected parties aware of developments in the investigation?

ARB will not comment on the investigation until the final determination has been made. All market participants will be notified of the final determination in a manner that ensures everyone gets the information at the same time.

Does the investigation impact other compliance offset credits generated by of livestock methane destruction projects?

Only the compliance offset credits issued for livestock methane destruction events that took place at the T&M Bos Dairy in Fair Oaks, Indiana are under investigation. All compliance offset credits recognized in the Cap-and-Trade Program are subject to rigorous oversight and verification. At this time, there is no additional investigation of compliance offset credits for other offset projects or protocols.

Could the compliance offset credits under investigation be invalidated?

Under section 95985(c)(2) of the Regulation, ARB can investigate and invalidate issued compliance offset credits if the offset project activity and implementation of the offset project was not in accordance with all local, state, or national, environmental and health and safety regulations during the Reporting Period for which the compliance offset credit was issued.

What happens if the compliance offset credits under investigation are invalidated?

All affected parties will be notified and the compliance offset credits under investigation will be removed permanently from CITSS. These compliance offset credits will no longer be valid and cannot be transferred to any other entity or used for compliance.

What happens if the compliance offset credits under investigation are found to be valid?

All affected parties will be notified and the compliance offset credits under investigation will be unblocked in the CITSS account of the affected parties. The compliance offset credits can then be transferred and used for compliance in accordance with section 95956 of the Regulation.

Is ARB issuing new compliance offset credits for livestock methane projects during the investigation?

During the period of review, ARB is temporarily postponing the issuance of any new compliance offset credits associated with destruction events at the T&M Bos Dairy. This investigation does not impact any other projects. Once the review is completed, ARB will assess if new projects with destruction events at the T&M Bos Dairy seeking issuance meet the requirements of the Cap-and-Trade Regulation and should be issued compliance offset credits. Offset project developers and holders of registry offset credits related to destruction events at this facility may continue to submit project documentation and requests for issuance to ARB for review with the understanding that there will be a delay in issuance of compliance offset credits until the current investigation concludes. ARB will continue to review and issue compliance offset credits for livestock methane projects that are not related to destruction events at the T&M Bos Dairy.

Additional regulatory guidance about ARB's offset invalidation process can be found here:

<http://www.arb.ca.gov/cc/capandtrade/guidance/chapter6.pdf>