



**Shell**  
**ENERGY**

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Independent Emissions Market Advisory Committee (IEMAC)

**Via Email:** [iemac@calepa.ca.gov](mailto:iemac@calepa.ca.gov)

RE: Comments to 2021 Annual Report (Annual Report)

Shell Energy North America (US), L.P. (“Shell Energy”) appreciates the opportunity to provide comments on the IEMAC’s 2021 Annual Report. Shell Energy markets and trades natural gas, power and environmental products and provides risk management support to its wholesale and retail customers throughout North America. Shell Energy’s goal is to provide more energy to meet growing demand while providing cleaner energy to reduce carbon emissions.

**I. ALLOWANCE BANKING**

The Annual Report section on Allowance Banking indicates that the substantial banking of allowances in private and public accounts casts uncertainty over the state’s ability to hit the 2030 emissions limit. The Annual Report recommends that the California Air Resources Board (CARB) take stock of the program and consider adjustments to allowance supplies going forward.

Shell Energy respectfully reminds the IEMAC that the program was designed to self-adjust by removing allowances unsold at auction for more than 24 months and transferring those allowances into the Allowance Price Containment Reserve (Reserve). The Reserve is comprised of allowances that have otherwise fallen within California’s overall allowance cap. Manual interference with this mechanism would cause regulatory uncertainty with respect to the withholding of allowance supplies and undermines market integrity if the regulator is able to adjust allowance levels on an ad-hoc basis.

Shell Energy agrees with the caveats provided in the Annual Report that, as it relates to the recommendations on Allowance Banking, it “has not provided the necessary analysis here to address expected future emissions (i.e. the demand side of the market) nor the expected effects of the program on statewide emissions in 2030”. Accordingly, if taken up by CARB in the

development of its 2022 Scoping Plan Update, the recommendation to re-assess program caps due to allowance banking should be thoroughly examined considering the successes and benefits of the existing program design.

## **II. CARBON OFFSETS**

On the matter of Carbon Offsets, the Annual Report raises potential structural reforms to enhance the contribution of reductions outside the market. Among the reforms suggested is an ex-post assessment of offset program performance to inform the retirement of allowances to account for any identified shortcomings relative to statutory standards.

Similar to the above, Shell Energy respectfully reminds the IEMAC that the program design has already accounted for this concern. Specifically, “shortcomings” or errors related to offset credits are addressed through the invalidation process for offsets. See 17 California Code of Regulations Section 95985. The Annual Report does not appear to contemplate the existing protocol for re-evaluating valid offset credits or how the proposed reforms might cure any apparent inadequacies.

Second, the Annual Report also raises consideration of an approach under development in Washington state, where offsets are counted underneath the program cap. Essentially, this approach would tie retroactive adjustments to the supply of allowances to the use of offsets. Draft Language WAC 173-446-250(4)-(6)(accessed 1/31/2022).

Shell Energy points out that in California, offsets usage is taken into account at the time the cap is set. Specifically, the cap in California is set presuming the retirement of offsets up to the annual maximum limit of each compliance period, whereas under Washington’s proposed program, the cap (and consequently, allowance amounts) will adjust after offsets are used. However, when this adjustment is considered in conjunction with the limitation on offset usage established at the outset of the compliance period, the outcome in the setting of the Washington cap is similar to the California cap; if anything, Washington’s approach, as drafted, theoretically results in additional allowances issued if the maximum percentage of offsets is not met. Table 1 below illustrates this concern. Accordingly, Shell Energy is concerned that this is a distinction in program design without real difference, except to cause market uncertainty in the targeted cap and in the supply of allowances that will be available.

<b>Table 1</b>		
	<b>CALIFORNIA</b>	<b>WASHINGTON</b>
	100	100
Maximum % Offset Usage	5%	5%
Cap	95	100
Actual Offsets Used		5%
Adjusted Cap		95

Finally, the Carbon Offsets section suggests supplementing or replacing the forest carbon offsets program with public expenditures funded through the state’s Greenhouse Gas Reduction Fund.

As a preliminary matter, Shell Energy does not find that the Annual Report sufficiently justifies replacement of the offset program, in part or as a whole. Offsets are an important tool in responding to volatility and complying with existing cap and trade programs. The use of offset credits encourages voluntary GHG emission reduction programs, promotes innovation, and can help reduce GHG emissions in all sectors of the economy, not just those industries or sectors covered by a carbon pricing system. Importantly, the Annual Report omits serious consideration of Voluntary Offset Programs which already supplement mandatory compliance programs and allay concerns around calculated climate benefits. Voluntary Offset Programs vary in programming, participants, standards and protocols; many have undertaken quality assurance certification to meet international standards and practices of offsets. Standards like Verra, Gold Standards, CAR and ACR have been adopted by supplementary programs, are well-recognized, and utilize science-based methodologies to ensure offsets generated create actual emission reduction and removals.

Shell Energy appreciates the IEMAC’s efforts in evaluating California’s Cap-and-Trade program, which has been proven to deliver on the state’s greenhouse gas emissions reduction goals and as currently structured serves as a model for other jurisdictions. Shell Energy offers these comments to the 2021 Annual Report and looks forward to continued engagement.

Respectfully submitted,

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