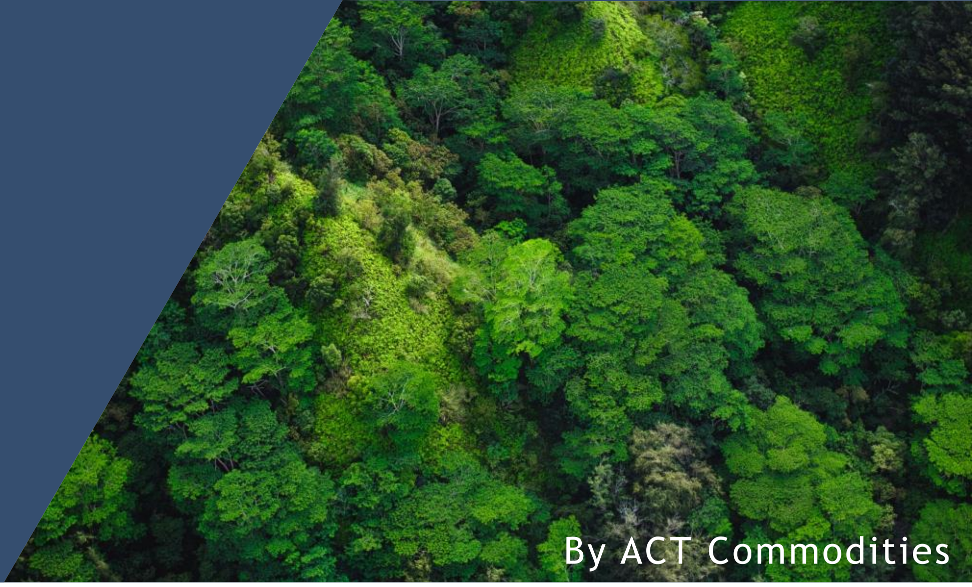
Transportation and Climate Initiative Program Draft Model Rule



5 May 2021

By ACT Commodities

Introduction

As a member of IETA (International Emission Trading Association), ACT Commodities (ACT) is a global leader in trading energy and environmental commodities. We provide solutions to over 5000 clients worldwide who need to meet environmental compliance requirements and voluntary sustainability goals. With over a decade of experience, ACT is a knowledgeable and active participant in the global carbon market, including emission trading mechanisms in Europe, South America, Africa, Asia, and voluntary standards such as the Verified Carbon Standard (Verra).

ACT would like to take this opportunity to comment on the **Transportation and Climate Initiative Program Draft Model Rule**, March 1, 2021.

Framework

TCI's eagerness for a Cap and Invest program with an initial 2022 reporting year and 2023 compliance period is commendable. ACT by and large supports sectoral emission caps which decline over time in a calculated and foreseeable manner. ACT considers the mechanisms outlined in the Model Rule such as the Cost Containment Reserve (CCR) and the Emissions Containment Reserve (ECR) as practical methods to preserve a dynamic and cost-contained program. Furthermore, allowance banking and multi-year compliance windows will complement various strategies while preserving the investment qualities of this program.

Linkage

ACT is acutely aware of international and domestic negotiations pertaining to the evolution of carbon markets. Speaking from our own involvement and experience ACT urges the TCI Model rule to include step-wise language for new jurisdictions to join the program and guidance on possible future linkages. Broader participation across the TCI states in the TCI-P program will contribute to the overall success by capping emissions and providing more reinvestments in communities and transportation alternatives.

Continued Support for the Inclusion of Third-Party Participants

ACT would like to reiterate the advantages of third-party inclusion stressed by Potomac Economics in the pre-recorded TCI-P webinar released on March 26, 2021. Potomac Economics emphasizes that secondary markets and the participation of non-regulated entities promote liquidity, provides hedging opportunities, and adds structured contract options. ACT further stresses that third parties reliably enhance competition by adding counterparties and preventing monopolistic markets from forming. ACT encourages all TCI jurisdictions to consider the efficiency of third-party participation when adopting the Model Rule.

Elise Miller emiller@actcommodities.com Tel: +1 212 895 4103

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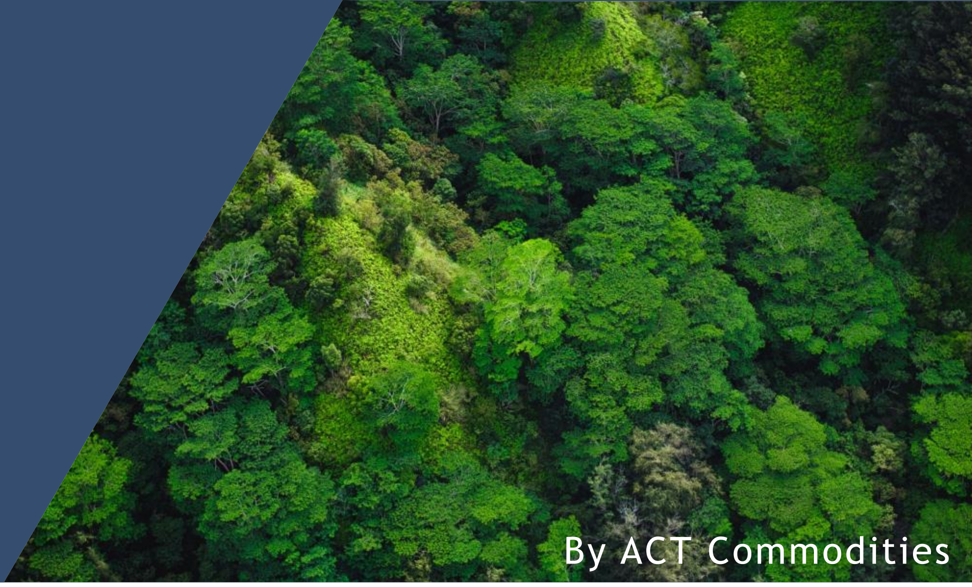

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Offsets

• Expanding Usage Limits

ACT understands the limited but important role offsets should play in all TCI-P jurisdictions. The California Cap-and-Trade which facilitates regional, nation, and international GHG reduction programs has accomplished cost-effect compliance flexibility by permitting 4-8% offset use depending on the year. Based on California's success with the Cap-and-Trade program, **ACT recommends a reevaluation of the 3.3% offset limitation laid out in the Model Rule**. A higher utilization limit would promote an adaptable market where entities can deploy compliance strategies that suit their business. A flexibility that provides fuel suppliers with optionality while still guaranteeing a majority contribution to the investment portion of the TCI.

• Adoption of Existing Protocols

Sectors unmonitored by the Model Rule (i.e., natural emission sources and sinks) offer significant emission reduction potential which without the economic driver of an offset market like the TCI-P would be difficult to attain. Additionally, co-benefits often accompany offset projects for example, project investments in economically disadvantaged areas or forestry projects that restore habitats. All the while, offsets are required to be real, permanent, and additional to meet the strict measurement, reporting, and verification requirements of reputable registries. For this reason, ACT discourages any separate accounting, reporting, or verification for TCI-P offset projects and suggests the adoption of existing protocols from Climate Action Reserve (CAR), the American Carbon Registry (ACR), and the Verified Carbon Standard (VERRA). In doing so the TCI-P would limit Jurisdictional burden and accelerate the advancement of project investments.

• Geographic Inclusions

California' Cap-and-Trade program has widely promoted offset project development nationally with the understanding that a ton of greenhouse gas has the same climate impact no matter its location. For this reason, ACT is opposed to geographical restrictions. Pending negotiations of Article 6 of the Paris Agreement and in the interim, ACT suggests the Model Rule is amended to accept all offset projects that meet protocol standards domestically. The Model Rule suggests a "memorandum of understanding with the appropriate agencies of all participating jurisdictions" and if the Model Rule intends to go through with this method ACT proposes the inclusion of proposed memorandum language, signatory agencies, and an accompanying explanatory webinar.

Thank you for your consideration of these recommendations. Please reach out if you would like to discuss.

Elise Miller   emiller@actcommodities.com   Tel: +1 212 895 4103