



April 16, 2008

## **The Climate Trust Comments to the Western Climate Initiative on the Draft Offset Design Recommendations**

Thank you for providing The Climate Trust with the opportunity to submit comments to the Western Climate Initiative (WCI) regarding the Draft Offsets Design Recommendations. We commend the member states and provinces for their pioneering lead in the establishment of regional greenhouse gas emissions reduction goals.

The Climate Trust is a non-profit organization whose mission is to promote climate change solutions by providing high-quality greenhouse gas offset projects and advancing sound offset policy. The Climate Trust was created in response to the United States' first regulation of greenhouse gases under the Oregon Carbon Dioxide Standard. The Climate Trust solicits, negotiates, and contracts to purchase offsets on behalf of its funders, including regulated power plants, businesses and individuals. Since its founding in 1997, The Climate Trust has directed \$8.8 million in funding into 16 greenhouse gas offset projects that are expected to offset close to 2.6 million metric tons of carbon dioxide.

### **Introduction**

These comments address certain design recommendations presented by the Offsets Subcommittee for stakeholder review and comment as set forth in the Draft Offsets Design Recommendations, and include:

- The role of a WCI offset program
- Offset program administrative structure and design
- Offset project types and protocols
- Offset project approval and geographic eligibility
- Trading system linkage
- Quantitative limits on offsets

### **The Role of a WCI Offset Program**

The Climate Trust believes that offsets have an important and valuable role to play in regional, national and international greenhouse gas reduction efforts and applauds the offsets subcommittee for its recommendation to include an offset program for the West. Oregon's experience with greenhouse offsets under its pioneering Carbon Dioxide Standard illustrates that offsets are a workable and effective means of achieving lower cost emissions reductions in a regulated system.

There are a number of short term benefits to including offsets in a regulatory cap and trade system that have been well discussed. These include lessening the price impact of

mandatory emissions reductions, providing a bridge while lower emissions technologies are developed and deployed, capturing emissions reductions in sectors not covered by the emissions cap and providing flexibility to capped entities in meeting their emissions reduction obligations. The Climate Trust believes that an adaptable offset framework will play an important role in both the short and long terms in assisting the West meet its emission reduction goals in the most cost-effective and efficient manner.

### **WCI Offset Program Administrative Structure**

The Climate Trust supports the Subcommittee's recommendation that an administrative structure that combines the optimal aspects of jurisdiction-by-jurisdiction, public-private partnership, and centralized regional approaches be integrated into the WCI system. As the longest-standing implementer of a greenhouse gas offset program in the United States, The Climate Trust would like to contribute our unique perspective.

The Climate Trust believes that it will be particularly important to have an independent, centralized body to administer an ongoing offset program. Having an experienced, knowledgeable and proficient body to administer an offset program under WCI will be very important in ensuring that the program is able to scale up quickly and functions as effectively as possible over the longer term. The Regional Greenhouse Gas Initiative (RGGI) member states have chosen to establish a non-profit, central administrative body, with one of its purview being offsets. The State of Oregon's pioneering efforts in carbon offsets have also developed such an entity specific to offsets: The Climate Trust.

We believe that WCI would be well served by incorporating a non-profit greenhouse gas offset administrator into the offset program framework. Under this model, each member state could hold a seat on the board of the organization, which would ensure that all states had an equal voice. Advantages of the non-profit offset administrator model approach include:

- Administrative efficiency and greater cost effectiveness;
- Adaptability of the program over time;
- Centralization of resources, knowledge and expertise;
- Consistency across states in regulations and rules;
- Increased transparency and accountability;
- Greater coordinated oversight by member states; and
- Impartial and independent implementation of the WCI offset program.

A centralized administrative entity could serve several vital functions in administering and executing a multi-sector greenhouse gas reduction program under the WCI reduction framework. In addition to the functions listed in the subcommittee's recommendations, it could:

- Serve as the central WCI greenhouse gas offset system administrator, including overseeing modifications to offset regulations and criteria over time.
- Partner with an organization to serve as the registry for WCI compliant offsets.
- Enforce the offset program requirements and evaluate and monitor WCI offset projects used for compliance over their lifetimes.
- Assist regulated entities in meeting their greenhouse gas emissions reduction requirements through a dedicated fund that small regulated entities could pay into.

This could be used to could procure greenhouse gas offsets on their behalf, similar to the Oregon Climate Trust model.

- Administer a public greenhouse gas reduction fund that would fund greenhouse gas reducing activities and projects that may not fit within the WCI offset framework.

## **The Oregon Model**

The state of Oregon has long been a leader in the field of environmental innovation; one of the best examples of this leadership is the Oregon Carbon Dioxide Standard and the establishment of The Climate Trust. As the only state in the U.S. with a long standing greenhouse gas reduction requirement and offset program, Oregon has nearly a decade of experience in achieving real, additional, and verifiable greenhouse gas reductions.

In 1997, the State of Oregon established the nation's first regulation of carbon dioxide with the Oregon Carbon Dioxide Standard. This law requires that all new power plants with greater than 25 megawatts of generation capacity mitigate a portion of their carbon dioxide emissions. Since its passage, the WCI member state of Washington has also enacted similar regulations. The Oregon and Washington CO<sub>2</sub> Standards<sup>1</sup> allow regulated entities to meet their compliance obligations by paying a set price per ton to an independent qualified organization. This organization then purchases greenhouse gas offsets to meet the power plant's mandated emissions reduction requirements. To date, all regulated entities under the law in Oregon have chosen this compliance path.

The Climate Trust was established to serve as the independent qualified organization under the Oregon Carbon Dioxide Standard in 1997, and has administered and executed the offset program since its establishment. The Climate Trust is a 501(c)3 organization, governed by a legislatively stipulated, appointed board of directors. This board of directors is comprised of representatives of the environmental community, the regulated power plants and the Oregon Energy Facility Siting Council. To date, The Climate Trust has placed \$8.8 million dollars in 16 different offset projects that are anticipated to result in nearly 2.6 million metric tons of carbon dioxide reductions over their lifetimes.

The Climate Trust is eager to share Oregon's success and "lessons learned" from its groundbreaking regulation of carbon dioxide with WCI policymakers. We stand ready to contribute our practical experience in offset program implementation and success in assisting regulated entities procure and retire real, verifiable and additional greenhouse gas offsets.

## **Offset Project Types and Protocols**

Striking the appropriate balance between environmental rigor and administrative flexibility when developing qualification and quantification methodologies for offset project types is a challenging, though attainable, task. Most methodologies in use today provide standardized guidance for determining the eligibility of a specific project for use under the system (additionality, start date, etc.). Additionally, some methodologies

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<sup>1</sup> A summary of the legislation can be viewed here:  
<http://www.oregon.gov/ENERGY/SITING/docs/ccnewst.pdf>

provide project-type specific, standardized guidance for quantifying the emissions reductions expected from a given project activity.

The Climate Trust has a standardized, publicly accessible assessment protocol for determining the additionality of a potential offset project. To be considered additional by The Climate Trust, a project proponent must demonstrate that the project activity: 1) was not required by law, 2) faced at least one barrier to its implementation (these barriers can be financial, technological, or institutional), and 3) was not common practice in its sector or industry.<sup>2</sup> In addition, only new projects are allowed under the Oregon Carbon Dioxide Standard, which means that The Climate Trust does not fund any projects that have occurred in the past. The Climate Trust develops project-specific quantification methodologies for each project in its portfolio.

The Climate Trust strongly discourages allowing member jurisdictions to retain regulatory authority for offset protocol and project approval, issuing offsets and enforcement. A patchwork of offset quantification methodologies across the western region could result in inconsistent environmental impacts and uneven economic investment in offset projects as project developers “protocol shop” for the methodology that will result in the greatest number of reduction credits.

The Climate Trust does not recommend that WCI attempt to independently develop project or sector-specific additionality and quantification methodologies before the August design recommendation deadline. In fact, given the time constraints the WCI is facing and the complexity of the task at hand, developing new additionality and quantification methodologies would be extremely difficult. We believe that the WCI system would be best served by defining a clear process by which an offset mechanism could be developed by the time the regime takes effect. A comprehensive offset framework could be approached in a three step process:

1. WCI member states could identify a list of initial project types and sectors for inclusion in the early years of the program. This will send important market signals to project developers and other participants and will spur early action in the identified sectors. It will also provide assurance to member states and other stakeholders regarding the scope of an offset program.
2. A WCI offset administrator could be tasked with the development of qualification and quantification assessment methodologies for the identified project types and sectors for use in the program on a pre-determined timeline. These WCI project methodologies could be vetted through an independent panel of experts, and have a stakeholder comment and review period.

There are several ways these methodologies and protocols could be developed:

- a. Through the adoption of existing methodologies, such as those from the Clean Development Mechanism, the California Climate Action Registry, The Regional Greenhouse Gas Initiative, The Climate Trust,

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<sup>2</sup> The Climate Trust’s additionality determination document can be accessed here: [http://www.climatetrust.org/about\\_us\\_press.php](http://www.climatetrust.org/about_us_press.php)

- Environmental Resources Trust, EPA Climate leaders, and the Voluntary Carbon Standard;
- b. Through the development of hybrid methodologies drawing on the groundwork that has already been laid in these systems and programs;
  - c. or, developed from scratch for any project type that does not have an existing methodology or protocol that meets the requirements of the WCI system.
3. The establishment of an ongoing process for the addition of new project types and methodology development that would be administered by the centralized administration agency.

This approach would allow the WCI member states to retain a high level of control over the types and sectors that are included in the offset program, while allowing the program to scale up quickly and in a public and transparent fashion. Moreover, it will send early market signals to project developers eager to begin delivering emissions reductions from uncapped sectors and will provide a means for the offset program to grow over time.

### **Offset Project Approval and Geographic Eligibility**

The Climate Trust strongly discourages limiting the eligibility of offset projects by geographic source. Greenhouse gases are global pollutants, thus, the location of an emissions reduction is immaterial to its impact on atmospheric concentrations of greenhouse gases. While we recognize that there are important positive environmental and economic externalities associated with the implementation of offset projects within the member states and North America, we believe that there are compelling geo-political and economic reasons for allowing offsets from a broad geographic scope.

We believe that by limiting the geographic scope of offsets, regulators could significantly decrease the available supply of offsets, thereby driving up their cost; particularly in the early years of the WCI program. Moreover, there are currently limited numbers of offsets available from existing offset quantification programs active in the U.S. such as CCAR, The Gold Standard and VCS. While this should change over time as greater certainty emerges regarding the shape and structure of the WCI and other regional markets, the potential exists for a serious supply deficit in the early years of the program. Additionally, utilizing the more mature and robust frameworks already established at the international level through the Kyoto Protocol will greatly facilitate the integration of offsets into the WCI system when they are needed most, in the early years of the program.

Second, as more sectors of the economy are capped in the U.S., there will be fewer and fewer eligible sources of offsets over time from within the capped economy. If offsets are only allowed from the member states and the pool of available credits shrinks over time, the economic benefits of integrating offsets into the WCI framework will be limited.

The Climate Trust believes that in the long term, most eligible offset project types will be located in uncapped economies, predominantly in the developing world. We believe that by only allowing offset projects from within the member states, or within the U.S., WCI

will miss out on the true advantage of a cap-and-trade system: the ability to achieve emissions reductions from the lowest-cost options from around the globe.

### **Trading System Linkage**

The Climate Trust supports the subcommittee's recommendation that WCI consider allowing the use of tradable units (both allowances and offsets) from other government regulated greenhouse gas emissions trading schemes. Linking to other greenhouse gas trading systems is one of the most cost-effective means of achieving emissions reduction goals at a global level. However, it is important to ensure that linked emissions reduction systems reduction goals and emissions caps are coordinated to ensure that trading between systems does not weaken the environmental integrity of the system nor compromise the achievement of real, verifiable emissions reduction targets.

### **Quantitative Limits**

From a strictly environmental and economic perspective there is no rationale for limiting emission reduction credits eligible to meet emissions reduction compliance obligations, as long as those credits are issued from qualified sources of emissions reductions. The Climate Trust recognizes the concerns regarding the incentivization of innovation and technology transformation in capped sectors. However, the establishment of rigorous and conservative quality criteria for greenhouse gas reduction mechanisms under climate change mitigation policy should serve as a sufficient limiter of greenhouse gas offsets available to regulated entities. Stringent offset quality criteria, particularly robust additionality and quantification criteria, will serve to screen out projects that are not resulting in above business as usual reductions, and should serve as a natural limiter on the number and type of compliance eligible offsets credits available in the market.