November 30, 2007

The Climate Trust Comments to the Western Climate Initiative on the Integration of Greenhouse Gas Offsets into a Cap-and-Trade System for the West

Thank you for providing The Climate Trust with the opportunity to submit comments to the Western Climate Initiative (WCI) regarding design principles for a regional cap and trade program. 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 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 nearly 2.6 million metric tons of carbon dioxide.

Introduction

These comments address certain design questions for stakeholder review and comment as set forth in the Western Climate Initiative (WCI) Work Plan. The Climate Trust anticipates submitting more detailed comments later in the policy promulgation process. These comments focus on the role that we believe greenhouse gas offsets should play in the regional reduction framework for the WCI system, specifically:

- Greenhouse gas offsets have an important role to play in the WCI reduction framework and should be included as an integral part of the region's greenhouse gas reduction strategy.
- Any offset mechanism should be designed to take advantage of the widest variety of reduction opportunities in the greatest number of sectors, while ensuring the environmental integrity of any offsets in the system.
- The Oregon Carbon Dioxide Standard and experience of The Climate Trust in implementing the U.S.' oldest greenhouse gas offset program provides a notable model for the WCI reduction regime. The Climate Trust strongly encourages consideration of a trust-based program to administer and implement a greenhouse gas offset program under the WCI framework.

Question A: What roles and key objectives, if any, should an offset mechanism play in WCI?

Given the scale and magnitude of emissions reductions needed to avert the most catastrophic impacts of climate change, every available emissions reduction tool and resource will be needed in the coming decades. A market-based cap and trade system is an important component of the comprehensive suite of carbon reduction policies that will be needed; however, cap and trade alone will not be sufficient. Mechanisms such as fuel efficiency standards, system benefit charges, tax credits, energy efficiency standards and other regulatory measures will also be necessary to achieve economy-wide emissions reductions. Greenhouse gas offsets are one of these tools and have a valuable role to play in the transition to a lower carbon economy both in the western United States and globally. Offsets will be particularly important in the early years of greenhouse reduction regimes, by reducing the cost of compliance with greenhouse gas reduction targets initially, offsets can help to increase acceptance for the regime and for more substantial reduction targets in the future.

Offsets, when properly regulated and implemented, can and do result in real, verified and additional greenhouse gas reductions. Because greenhouse gases accumulate in the atmosphere at a global level, the location of a reduction is irrelevant to its impact on atmospheric concentrations of greenhouse gases. Significant groundwork has already been laid in both the regulatory and voluntary markets to ensure that offset mechanisms achieve their intended results. Offsets are an established component of emissions reduction regimes across the globe, including the Kyoto Protocol, the European Union Emissions Trading Scheme, the Regional Greenhouse Gas Initiative and the Oregon and Washington Carbon Dioxide Standards.

Including offsets in an integrated cap and trade policy brings several important advantages:

1. Greenhouse gas offsets serve important cost containment and price stabilization roles in a market-based greenhouse gas reduction program. By allowing regulated entities to meet their compliance obligations through a variety of emissions reduction options, adverse economic impacts can be moderated and distributed more equitably throughout society, thereby leading to greater acceptance of the regime and increasing support for more stringent reduction targets in later years.
2. Greenhouse gas offsets can stimulate and capture emissions reduction opportunities in sectors not covered by or not amenable to a traditional cap. The transportation and agricultural sectors are examples of sectors where offsets will allow them to participate in the system where they otherwise might not be able to.
3. Greenhouse gas offsets can stimulate emissions reduction activities and early action in the beginning years of a greenhouse gas reduction regime, driving critical infrastructure and behavioral changes.
4. Greenhouse gas offsets stimulate the market to seek out and take advantage of the lowest cost reduction opportunities first, resulting in the most economically efficient distribution of reduction efforts and mitigation funding.

5. Greenhouse gas offset projects often have significant environmental and economic co-benefits associated with their implementation. Depending on the type of offset project, these can include long term energy cost savings to project implementers, job creation, improved air, land and water quality and habitat preservation.
6. Greenhouse gas offset projects that directly reduce fossil fuel use can result in greater energy security through lower demand for foreign sources of fossil fuels.

The Climate Trust believes that offsets have an important and valuable role to play in regional, national and international greenhouse gas reduction efforts and should be included in the WCI greenhouse gas reduction framework. Oregon's experience with greenhouse offsets under its pioneering Carbon Dioxide Standard illustrates that offsets are an important means of stimulating greenhouse gas reductions where they are most needed and would not have occurred absent the support of greenhouse gas mitigation funding. The Climate Trust has played a central role in Oregon's offset program implementation for nearly a decade and is eager to share its experience with WCI stakeholders and policy makers.

Question B: How should a WCI offset mechanism be designed?

Generally speaking, an offset mechanism should be designed to take advantage of the widest variety of reduction opportunities in the greatest number of sectors, while ensuring the environmental integrity of any reductions in the system. This necessitates a flexible and nimble offset framework that allows rapid responses to changes in markets and regulatory frameworks.

B. 1: How should greenhouse gas offsets be defined for use within the WCI cap and trade system?

A greenhouse gas offset displaces, avoids or sequesters greenhouse gas emissions through the implementation of a specific project intended to compensate for emissions occurring at another source. The essential promise of a greenhouse gas offset is the achievement of a real and verifiable reduction in greenhouse gas emission levels equal to reductions that would have been realized by onsite mitigation measures by emitters. Due to the way in which greenhouse gases impact the atmosphere, the location of an emissions reduction is immaterial to its impact.

A credible and effective offset program needs rigorous procedures for both qualifying and quantifying offset projects. Qualification criteria ensure that a GHG reduction project is eligible to be used as an offset, critical metrics include: additionality, permanence and ownership of credits. Quantification criteria ensure that the reductions resulting from an offset project are appropriately measured, verified and recorded, these criteria include: monitoring and verification, project baseline and leakage. These measures are intended to ensure that the emissions reductions resulting from a greenhouse gas reduction project used as an offset result in a real and verifiable reduction in atmospheric greenhouse gas levels equivalent to an onsite reduction by an emitter.

Qualification Criteria

Additionality. Additionality is an essential determinant of the effectiveness of an offset project and one of the most important factors in assessing project quality. Additionality describes a process by which an assessment is made regarding whether or not a project's emissions reductions are *in addition to* a business as usual scenario. The Climate Trust utilizes a project-by-project additionality assessment, in which a project proponent must demonstrate that it faces barriers to implementation that can be addressed through offset funding. These barriers can be financial, technological or institutional. Examples of financial additionality tests include: lack of available capital, lack of access to traditional sources of funding, inadequate rate of return, high initial capital costs, high perceived risk, etc. [1]

Additionality is the metric by which a project demonstrates that it will result in a real, measurable reduction in greenhouse gas emissions. A non-additional offset project fails on the fundamental promise of an offset to reduce the amount of greenhouse gases in the atmosphere in an equivalent amount to that of an onsite reduction project.

Permanence. This is a term used to note that the offsets generated by biologically-based projects can be reversed. Permanence is a type of project risk. For example, forestry-based offset projects face a permanence risk: if there is a wildfire, some of the carbon sequestered in the forest will be released into the atmosphere and the offset could be negated. The market is proactively developing ways to address and mitigate the risk associated with these types of projects. These measures include reserve pools or buffer accounts and insurance, among others. Permanence should be addressed in the offset contracting process.

Ownership of Credits. Emissions reductions generated by offset projects must have clear and defensible rights to ownership. An offset may only be allocated, awarded or counted one time, at any given time, against the greenhouse gas emissions of a single entity.

Quantification Criteria

Monitoring and Verification. Emissions reductions from GHG offset projects must be accurately quantified and verified. Each project must have a monitoring and verification (M&V) plan specific to that particular project that defines how, when and by whom the quantification and verification will be conducted. To ensure proper quantification and verification methodologies, the M&V Plans should be written with the help of experts familiar with the specifics of a project. All emissions reductions should be verified by an independent, third party verifier. There are established standards that can and should be used to develop and implement these M&V Plans, examples include: the World Resources Institute's Greenhouse Gas Protocol for Project Accounting and the International Standards Organization 14064 and 14065 Protocols.

Project Baseline. A baseline is a core component of the greenhouse gas reduction quantification process and must be established in order to quantify a project's reduction of greenhouse gas levels. *Baselines are determined by evaluating what is currently happening and then assessing what would have happened in the absence of the project.* The baseline is intended to demonstrate what greenhouse gas emission levels would have

[1] For a more detailed discussion of The Climate Trust's offset project evaluation criteria see http://www.climatetrust.org/pdfs/Climate_Trust_Additionality.pdf

been in the absence of the greenhouse gas reduction project. The difference between the business as usual case and the reductions achieved by the greenhouse gas reduction project is what is credited as an offset. Credible greenhouse gas emissions reductions can only be assessed if the baseline upon which the reduction is assessed is based is an accurate and realistic reflection of the business as usual emissions scenario.

Leakage. Leakage is defined as increases or decreases in greenhouse gas emissions outside of the project's emissions boundary that occur as a result of the project activity. For example, if a farm decides to cease farming operations to reforest its land, an equivalent area of land may be deforested elsewhere to meet the demand for the farmer's crop. Monitoring & verification plans and contracts should provide necessary mechanisms to properly account for leakage over the life of an offset project.

Question C: How should the WCI administer an offset mechanism? Are there useful models and protocols to follow?

The Climate Trust strongly recommends the WCI consider the incorporation of a trust model, building on the experience of the Oregon program, into the WCI framework. The Climate Trust believes that it will be particularly important to have an independent, centralized body to administer an ongoing offset program. The greenhouse gas offset field is evolving and a significant amount of capacity development needs to occur around the qualification and quantification processes. For this reason, having an experienced, knowledgeable and proficient body to administer an offset program under WCI will be necessary. This entity could serve several vital functions in administering and executing a multi-sector greenhouse gas reduction program under the WCI reduction framework.

Such an organization could:

- Serve as the central WCI greenhouse gas offset system administrator, including overseeing modifications to offset regulations and criteria.
- Develop new protocols and methodologies using a "project to protocol" approach, and evaluate existing protocols and methodologies for compliance with and eligibility to participate in the WCI system.
- Evaluate proposed offset projects under the system and determine their eligibility with the WCI standards and quantification methodologies.
- Partner with an organization to serve as the registry for WCI compliant tons, including allowances/reduction credits and offsets.
- 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_2 Standards[2] 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.

[2] A summary of the legislation can be viewed here:
http://www.oregon.gov/ENERGY/SITING/docs/ccnewst.pdf