

# Carbon Offsets Getting the Rules Right under Cap and Trade Legislation



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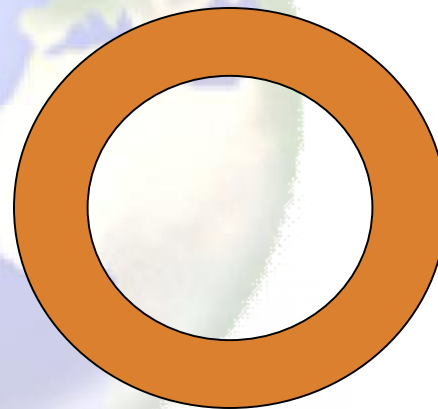
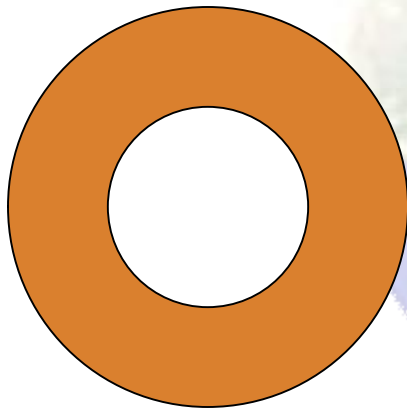
# Overview

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- **The Price-Setting Role for Carbon Offsets in Cap and Trade**
  - **How Offsets Create Real GHG Reductions**
  - **The Key Rules for Assuring Real Reductions**
  - **The Unavoidable Complexity of Offsets**
  - **Will the U.S. Get the Rules Right? Will We Get the Price Right?**
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# Visualizing Offsets --

- Sectors in and out of Cap, w/o Offsets
- Sectors in and out of cap, w/ Offsets



# The Price-Setting Role for Offsets

- **Under Waxman-Markey Bill, up to 2 Billion Tons of Offsets/Year**
  - 1 Billion Domestic
  - 1 Billion International
- **Total Economy – 7 Billion Tons of GHG Emissions/Year**
- **Total Allowances – 4.65 Billion Tons/Year and Declining**
- **Projected Carbon Price with Offsets: \$10 - 20**
- **Projected Carbon Price without Offsets: \$40 +**

# Offsets -- Creating Real GHG Reductions


- **Offsets Are From Projects Outside Capped Sectors or Activities. Which Is It?**
- **Offset Credits Are Created By Individual Projects That Reduce GHG Emissions Relative To A Baseline Or Increase Sequestration**
- **Offset Reductions Must Be Real, Verifiable, Additional, Permanent and Enforceable**
- **Leakage Subverts the Cap**

# Scope of Eligible Offset Activities – Beyond the Forest and the Trees

- **Are Projects Outside the Capped Sectors/Activities?**
  - **Renewable Generation**
  - **Flaring Methane from Uncapped Landfills**
  - **Capturing Methane as Renewable Fuel for Generation**
  - **Biofuels**
  - **Improved Utilization of Biomass**
  - **Improved Land Practices**

# Scope of Eligible Offsets (Cont.)

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- **Carbon Capture and Terrestrial Sequestration?**
  - **Carbon Capture and Sequestration in Algae?**
  - **Reductions in Energy Consumption – Do They Ever Qualify for Offsets?**
    - **End Use Consumers**
    - **Industrial Process Efficiency**
    - **Substitute Biomass for Fossil Fuel**
    - **BioProducts**
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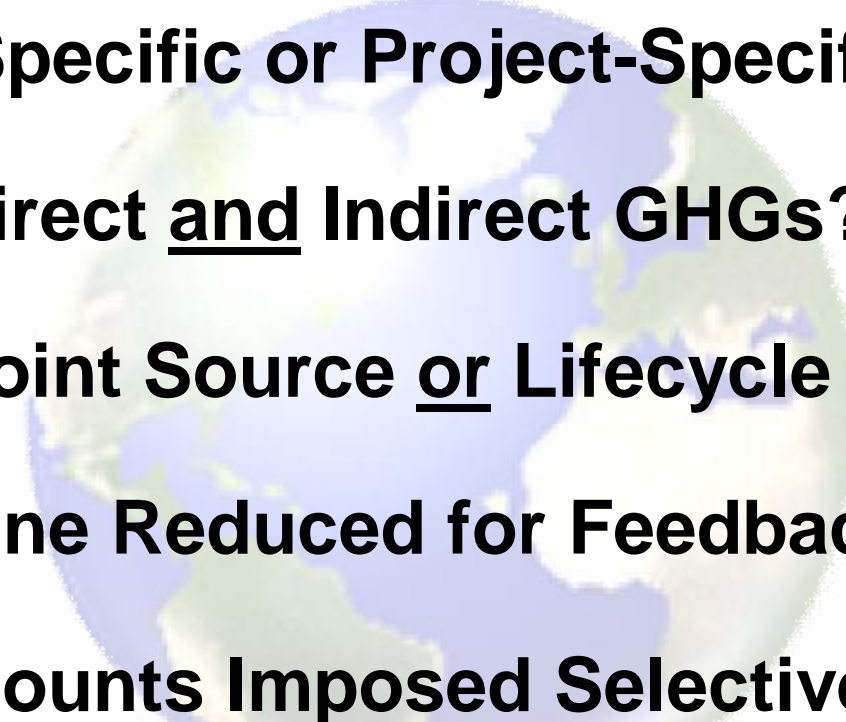
# Additionality

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- **Disqualify Reductions That Would Happen Anyway**
- **Financial Additionality: Must Projects Be Uneconomic w/o Offset Credits?**
- **Program Additionality: Do These Disqualify Projects?**
  - **Subsidy Programs; Tax Incentives; Other Mandates**
  - **Special Allowance Allocations?**
  - **Allocation of Auction Revenues?**

# Measurement Rules

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- **How To Establish Baselines – Sector-Specific or Project-Specific?**
  - **Count Direct and Indirect GHGs?**
  - **Count Point Source or Lifecycle GHGs?**
  - **Is Baseline Reduced for Feedback Effects?**
  - **Are Discounts Imposed Selectively?**
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# Administration

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- **Allocation of Authority and Process Matter**
- **EPA; DOE; DOA; States; CDM; Other Sovereigns?**
- **Roles of Voluntary Organizations; Offset Certifiers?**
- **Self-reporting Like Taxes or Verified Reductions Like CEMS, or In-Between?**
- **Credits for Prior Action? Same or Different Rules?**
- **International Credits – Same or Different Rules?**
- **Who Decides? Treaty, Statute, Regulations?**

# Conclusion

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- **Size of Capped Sectors Is Uncertain**
  - **Scope of Eligible Offsets Is Uncertain**
  - **Additionality Rules Might Bite**
  - **Baseline Rules Might Bite**
  - **Measurement Rules Might Bite**
  - **Will We Bite Off Too Much?**
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