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## **Comments of the Offset Quality Initiative to the Western Climate Initiative on the Draft Design Recommendations on Elements of the Cap-and-Trade Program**

**June 5, 2008**

### **Introduction**

Thank you for providing the Offset Quality Initiative (OQI) the opportunity to comment on the Western Climate Initiative (WCI) Draft Design Recommendations on Elements of the Cap and Trade Program. These comments focus on the Draft Recommendations for Offsets and the role that high quality greenhouse gas (GHG) offsets can play in helping the member jurisdictions of the WCI achieve their emission reduction goals.

The Offset Quality Initiative is a collaborative, consensus-based, effort that brings together the collective resources and expertise of its non-profit member organizations: The Climate Trust, California Climate Action Registry, Environmental Resources Trust, Greenhouse Gas Experts Network, Pew Center on Global Climate Change, and the Climate Group.

The objectives of the OQI are:

- Establish, clearly articulate, and promote the core principles that ensure quality with regard to greenhouse gas emission offsets, and promote the consistent and appropriate application of those principles in emerging climate change policies and regulations.
- Develop and promote consensus policy positions for the optimal integration and treatment of greenhouse gas offsets in current and future state, regional and national climate change policy.
- Educate stakeholders on the opportunities and challenges presented by the integration of greenhouse gas offsets into regulatory and voluntary climate change mitigation strategies.
- Serve as a source of credible information on greenhouse gas offsets based on the diverse collective knowledge and experience of the Offset Quality Initiative members.
- Promote innovation in the greenhouse gas offset market and provide information and guidance on best practices and policies.

## Summary of Comments

- **The Contribution of Greenhouse Gas Offsets.** The OQI believes that high quality greenhouse gas offsets are a vital component of achieving the economy-wide transformation necessary to transition the global economy to a new, low carbon future.
- **Advantages of Including Offsets in the WCI System.** Greenhouse gas offsets can be an efficient mechanism for achieving large scale greenhouse gas emission reductions and facilitating the transition toward a low-carbon economy. Offsets can have important cost containment benefits by stimulating emission reductions in uncapped sectors.
- **Offset Project Types and Protocols.** The Offset Quality Initiative supports the development of cost-effective, robust, and flexible offset project assessment tools that provide a rigorous and transparent framework for the evaluation of GHG offset projects. The OQI believes that a hybrid approach to additionality and quantification assessments will strike the best balance between administrative simplicity and quantification certainty, while taking into account project-specific circumstances.
- **Geographic Limits on Offsets.** Because greenhouse gases accumulate in the atmosphere at a global level, the location of a qualified reduction is immaterial to its impact on atmospheric concentrations of GHGs. In order to achieve the most efficient emission reduction opportunities first, regulations should not place limits on the location of offset projects based solely on geography. However, regulation should be designed to ensure that non-greenhouse gas considerations are adequately addressed, while recognizing the global nature of the GHG emission impacts.
- **Quantitative Limits on Offset.** From a strictly environmental and economic perspective, there is no rationale for limiting emission reduction credits eligible to meet emission reduction compliance obligations, as long as those credits are issued from qualified sources of emission reduction activities. The appropriate limit on offsets should ensure that innovation and technology transformation are occurring in the capped sector, while promoting access to the wide array of lower cost emission reduction opportunities located in uncapped sectors, both in the United States and internationally.
- **Program Linkage.** Where possible and practical, the WCI system should be designed to be as compatible as possible with other existing and emerging regimes, both domestically and internationally (as long as those regimes have high environmental integrity). Offset standards and markets should work towards the recognition of a globally fungible offset credit commodity, which will increase global liquidity and market efficiency.
- **The Role of a Regional Organization.** The OQI supports the recommendation to establish a centralized entity tasked with the administration and execution of a GHG offset program under the WCI system.

## **Greenhouse Gas Offsets and the WCI System**

As the members of the Western Climate Initiative embark on the path towards addressing climate change, many GHG reduction tools will be needed to achieve the significant cuts in GHG emissions necessary to stabilize the climate and meet the WCI reduction targets. Among the most important and complex of these tools is the use of GHG offsets (“offsets”). A GHG offset represents a reduction or removal of greenhouse gases from the atmosphere due to a specific project activity that is used to compensate for emissions occurring elsewhere.

Greenhouse gas offsets are a tradable commodity generated by emission reduction project activities that meet certain eligibility criteria. The fundamental distinction between greenhouse gas offsets and other project-based emission reductions is that offset projects are implemented specifically to compensate for emissions occurring at another source. Greenhouse gas offsets are generally represented in units of metric tons of carbon dioxide equivalents.<sup>1</sup>

The essential promise of a greenhouse gas offset is the achievement of a real and verifiable reduction in greenhouse gas emission levels beyond what would have occurred under business as usual conditions. By directing mitigation funding toward greenhouse gas reducing activities, offsets can provide a less costly and equally effective means of achieving emission reduction goals than onsite emission reductions by regulated entities.

Greenhouse gas offsets are a vital component of achieving the economy-wide transformation necessary to transition the global economy to a new, low carbon future in the West. The Offset Quality Initiative believes that GHG emission reduction projects and their associated GHG offsets will be critically important in achieving emission reductions in the most efficient and cost-effective manner.

## **Advantages of Including Offsets in the WCI System**

Offset Quality Initiative supports the recommendation of the WCI that a compliance offset program be developed and established for the WCI regional GHG emission reduction system. Cap and trade is one important policy mechanism, and including offsets in an integrated cap and trade system brings several important advantages:

- Offsets can stimulate emission reduction opportunities in sectors that either are not covered by or are not appropriate for an emission’s cap or are not readily or cost-effectively subject to traditional command and control regulation. Significant emissions reduction opportunities exist in these un-capped sectors. Robust and well-designed offset policies can capture some of these reduction

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<sup>1</sup> Carbon dioxide equivalents (CO<sub>2</sub>e) are the universal unit of measurement used to indicate the global warming potential (GWP) of each of the 6 greenhouse gases: carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), perfluorocarbons (PFCs), hydrofluorocarbons (HFCs) and sulphur hexafluoride (SF<sub>6</sub>). It is used to evaluate the impacts of releasing (or avoiding the release of) different greenhouse gases. CO<sub>2</sub>e are calculated based on Global Warming Potential values established by the Intergovernmental Panel on Climate Change (IPCC).

opportunities at a lower cost than through either cap and trade without offsets or through traditional command and control regulation. We also support cost-effective regulations to address GHG emissions (and removals) from activities that are less well-suited to be included in an offsets system.

- Offsets can stimulate emission reduction activities and early action in the early years of a greenhouse gas reduction regime, driving critical infrastructure and behavioral changes in sectors not covered by a cap and trade system or direct regulation.
- Offsets are a market-based mechanism that enable capped entities to take advantage of lower cost reduction opportunities first by incorporating uncapped sectors into a broader mitigation scheme; this can result in a more economically efficient distribution of reduction efforts and mitigation funding, and can reduce the overall costs of a GHG regulatory regime.
- Offset funding can provide a significant driver of new, innovative technologies that will help the transition to a low carbon economy, reduce reliance on fossil fuels, increase energy security, and assist in meeting emission reduction targets.
- Offsets can promote technology and knowledge transfer between the developed and developing worlds. These technologies not only provide emission reductions, but also provide other important environmental, social, and economic co-benefits.

## **Offset Project Types and Protocols**

### **Offset Project Types**

The Offset Quality Initiative is generally supportive of developing an initial list of approved offset project types prior to the WCI program implementation.

### **Offset Project Assessment Methodologies**

All GHG reduction projects must be evaluated and assessed in order to determine their eligibility to generate offset credits, and to establish a means of quantifying those credits. The Offset Quality Initiative supports the development of cost-effective, robust, and flexible offset project assessment tools that provide a rigorous and transparent framework for the evaluation of GHG offset projects. The OQI believes that a hybrid approach of combining project specific and standardized additionality and quantification assessments will strike the best balance between administrative simplicity and quantification certainty, while taking into account the consideration of project specific circumstances. Emerging regulatory regimes should build off of the existing groundwork that has been laid at the regional and international levels, and seek to design policy that incorporates the lessons learned from current activities while allowing for flexibility, innovation and adaptation over time.

### **Adaptation and Adjustment**

The GHG offset program under WCI should be flexible and comprehensive. Regularly spaced review and adjustment periods should be established to make changes to policy and regulation without creating avoidable uncertainties for investors. Changes in the overall program design, as well as details of protocols for project-types, should be

evaluated and incorporated regularly to ensure the environmental integrity and effectiveness of an offset mechanism. Any changes in the program should, except under extreme circumstances, not be applied retrospectively in order to avoid leaving project developers, regulated entities and other market participants with stranded investments.

### **Addition of New Project Types**

The WCI offset program should allow and encourage the development of new offset project standards and protocols for new and innovative offset project types, and include a mechanism for their incorporation into the program on an ongoing basis.

## **Geographic and Quantitative Limits on Offset in the WCI System**

### **Geographic Eligibility**

Because greenhouse gases accumulate in the atmosphere at a global level, the location of a qualified reduction is immaterial to its impact on atmospheric concentrations of GHGs. In order to achieve the most efficient emission reduction opportunities first, regulations should not place limits on the location of offset projects based solely on geography. However, the OQI recognizes that there are important local impacts and co-benefits of GHG offsets projects that should be considered when crafting regulation. However, these local benefits are unlikely to be best captured by a nonspecific restriction on the location of all offset project. The WCI offset system should be designed to ensure that these non-greenhouse gas considerations are adequately addressed, while recognizing the global nature of the GHG emission impacts.

### **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 emission reduction activities. By lowering the cost of the total system, inclusions of offsets could allow for the implementation of a more stringent cap, which would drive additional emission reductions.

Concerns exist regarding incentives for technological change in capped sectors if large amounts of emission reductions are allowed to come from outside of the capped sector or sectors. That said, it is important to remember that while emission reduction opportunities and technology changes may be slowed in the capped sectors if high quantities of offsets are allowed, those qualified GHG offset projects are driving GHG reductions, technology change, and innovation in uncapped sectors at a lower cost.

If politically unavoidable, any limit on offsets should ensure that technological changes are actually occurring in the capped sector, while ensuring access to the wide array of lower cost emission reduction opportunities located in uncapped sectors.

### **Program Linkage**

Where possible and practical, the WCI offset system should be designed to be as compatible as possible with other existing and emerging regimes, both domestically and internationally (as long as those regimes have high environmental integrity). In particular, the WCI offset system should build on and enable linkage with the international

frameworks already in place, including the Clean Development Mechanism under the Kyoto Protocol. Offset standards and markets should work towards the recognition of a globally fungible offset credit commodity, which will increase global liquidity and market efficiency.

### **The Role of a Regional Organization**

In order to more effectively address the issues of consistency, transparency, regulatory adaptation, and linkage, the OQI supports the WCI recommendation to establish a centralized entity tasked with the administration and execution of a GHG offset program under the WCI system. The OQI also recommends that a regional organization be established and empowered to make decisions regarding the administration and implementation of the compliance offset system once the initial framework has been established and agreed upon.

### **Conclusion**

The Offset Quality Initiative strongly believes that GHG offsets have an important role to play in the achievement of the WCI's stated emission reduction goals and in reducing the economic impacts associated with those reductions. To this end we commend the WCI member jurisdictions for their recommendations. In order to provide more detailed guidance regarding the integration of high quality GHG offsets into emerging climate change mitigation regimes, such as the WCI, the Offset Quality Initiative is in the process of developing a detailed discussion document regarding key considerations for the incorporation of high quality greenhouse gas offsets into emerging policy. We look forward to sharing this with the Western Climate Initiative members and other stakeholders upon its completion this summer.

For additional information visit: [www.offsetqualityinitiative.org](http://www.offsetqualityinitiative.org)