



Comments to the Western Climate Initiative on Offset Limits and Distribution

June 19, 2009

Introduction

Thank you for providing The Climate Trust with the opportunity to submit comments to the Western Climate Initiative (WCI). Below please find recommendations regarding a mechanism for limiting offset use and the distribution of offsets across jurisdictions/compliance periods.

These comments are focused on maximizing economic efficiency and cost containment, the two central rationales behind the incorporation of offsets into a cap-and-trade system. However, to assure that offsets maintain the environmental integrity of the cap-and-trade system, it is critical that quality criteria be sufficiently stringent. These recommendations are based on the assumption that the offsets incorporated into the system are quantifiable, high-quality, real, enforceable and additional, and therefore fully fungible with allowances.

Comments

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.

A mechanism to impose the limit

The Climate Trust favors a hybrid of an entity-level use limit calculated in tons combined with an offset surrender certificate approach. Combining these two mechanisms ensures that the number of offsets permitted in the system will be maximized without being exceeded, which also stabilizes the offset market by providing assurances to offset project developers. Additionally, this approach promises flexibility of offset use, as entities will be able to trade offset certificates.

Applying the limit across jurisdictions

If offsets are fully fungible with allowances, as in the scenario above, The Climate Trust recommends there be no limit across jurisdictions. An organization with a board of directors made up of representatives from each jurisdiction should administer offset usage across all jurisdictions to

ensure compliance with the 49 percent region-wide limit. This will avoid political bias and will minimize market manipulation, while maximizing flexibility of use. The administering organization will track usage at the entity level to ensure the limit is not exceeded.

However, if offsets are not fully fungible, The Climate Trust advocates for a limit on a common basis across all jurisdictions. Fairly allocating offsets across jurisdictions will avoid political bias. It should be noted that under this option, the full cost-containment and efficiency potential of offsets will not be realized.

Applying the limit across compliance periods

Congruent with the recommendations above, The Climate Trust favors full flexibility across compliance periods. This will require a set number of offset certificates be made available, which the white paper states must be based on a limit on supply. However, a conservative limit on certificate allocation at the outset of the scheme would allow the administrator to amend (i.e. add to) the total number of offset certificates in the second and third compliance periods if it becomes evident that the original allocation is below the 49 percent limit.

The rationale behind this recommendation lies in a lack of offset market clarity. Limiting offsets across compliance periods without clarity on long-term offset supply or demand risks underutilizing offsets and distorting offset price. Rather, empowering regulated entities to determine the timing of their offset use – which would require individualized risk analyses of their projected offset needs over potential offset supply over time – will allow each entity to best decide how to utilize offsets while allowing the offset market within WCI to fully mature.

A market for offset certificates would likely arise from this scenario, and regulation would be required. This regulatory responsibility could fall to the independent organization recommended above.

Conclusion

In conclusion, The Climate Trust believes that offsets should operate with the greatest amount of geographic and temporal flexibility, assuming they are high-quality, quantifiable, real, enforceable and additional. This will maximize cost-containment and efficiency within the region's cap-and-trade system. To achieve this, The Climate Trust strongly urges the offset committee to evaluate how each possibility outlined in the white paper impacts cost containment and economic efficiencies, prior to deciding how best to administer the program.

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, which include 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.