The Significant Benefits of Offsets in a Cap and Trade Program

The Business Council for Sustainable Energy supports the use of offsets as an appropriate cost containment mechanism within a cap and trade system. Furthermore, offsets can generate domestic greenhouse gas emissions reductions in areas of the economy not ripe for regulation, while at the same time, driving technology innovation in these sectors. Internationally, the use of offsets represents a key source of technology transfer for developing countries. Importantly, the use of offsets in the near term is critical to the development of a cap and trade program as clean energy technologies are scaled up.

A compliance offset program would allow covered entities to meet a portion of their annual compliance obligation to reduce greenhouse gas emissions by purchasing offset allowances generated from domestic or international projects or activities that fall outside the scope of an emissions cap.

Key Messages

As Congress considers comprehensive climate change legislation, a robust offset program should be included. The Council encourages covered entities to undertake internal emission reduction activities, such as deploying renewable energy and energy efficiency to the greatest extent possible, however, offset purchases are an important complementary tool to help covered entities manage compliance costs and widen the scope of environmental benefits. The Council believes that:

- Ensuring the environmental integrity of offset allowances is essential in order to meet desired emission reduction levels
- Offsets must be real, additional, permanent, enforceable, and measurable for program integrity
- Third party monitoring and verification by an independent accredited body must be in place to ensure that greenhouse gas emission reductions are delivered over the life of the project

Recommendations

The Council offers the following recommendations with respect to the design of a federal offset program. Note: As a diverse business coalition, not all Council members endorse or take positions on the set of recommendations provided.

1. Promote certainty for the market:

- *Utilize a standards-based approach for offset projects while allowing for case-by-case review of projects without pre-approved methodologies* – Implementation of pre-approved standards for offset projects and activities will promote certainty, as well as administrative efficiency, cost effectiveness and transparency.

The use of performance-based standards, where appropriate, should require offset projects or activities to be evaluated by their individual circumstances to ensure that emission reductions go beyond business-as-usual. Case-by-case review of new project types should be permitted where there are no pre-approved standards. A federal program should draw upon existing work to date within domestic and international cap-and-trade programs.

- *Employ multiple tests for demonstration of offset "additionality"* – The term "additionality" refers to the determination of whether an emission reduction activity would have occurred in the absence of the offset program, or, according to a business-as-usual scenario. This is an important part of the offset approval process, as offsets must represent real,

measurable and surplus emission reductions. There are a variety of factors that have been used to determine offset additionality, such as tests based on current regulations, technology deployment trends and the financial viability of a project or activity, among others. The Council urges the use of multiple tests to determine whether emission reductions are additional.

- *Utilize standardized emission factors* – The factors used to determine the number of emissions offsets generated by an activity can be altered based on the emissions factors used in the review process. To promote consistency and clarity, a standardized emissions factor for domestic and internationally-generated offsets should be utilized within a federal program.

- Congress should establish the rules, oversight, and accounting mechanisms, of a federal compliance greenhouse gas offset program, even in advance of climate change legislation. Knowing the rules would provide certainty to the carbon market in an environment where offset projects can take years to design and develop.

2. Provide flexibility for regulated entities to invest in the most cost-effective emission reduction activities:

- *Promote broad sector and activity eligibility for offsets* – All sectors and activities not immediately covered by an emissions cap should be eligible to generate offsets insofar as they meet the criteria established above. Legislation should promote a robust and liquid carbon offset market for a wide range of activities that offer readily available low cost reductions.

- *Promote linkages with other domestic and international offset programs* – The federal cap and trade program should build upon the substantial capacity of domestic offset programs to the extent these programs register offset reductions that meet the criteria above or whatever criteria the federal government establishes. A federal program must also be linked to the international programs that generate offsets provided they are of high quality and integrity and are recognized under a successor to the Kyoto Protocol. Addressing climate change is a global challenge and emission reduction activities that occur within and outside the United States generate valuable environmental benefits.

3. Encourage emission reduction activities early and to the greatest extent possible:

- *Reward early action* – The faster emissions reductions are achieved, the faster the goals can be achieved. Rewarding the efforts of entities that purchase qualifying offsets prior to implementation of a federal program sends clear market signals to facilitate development of projects that reduce greenhouse gas emissions to the extent eligibility is clear and legally defined. Early action can be recognized by adjusting the emissions baseline of regulated entities to reflect offset purchases or by granting allowances under the regulatory program to recognize early offset purchases.

About the Business Council for Sustainable Energy

The Business Council for Sustainable Energy is an industry coalition that includes businesses and trade associations representing a suite of currently available technology options for strengthening domestic energy security while also reducing emissions of greenhouse gases that contribute to global climate change. These technologies include: advanced batteries, biomass, biogas, fuel cells, geothermal, hydropower (including new waterpower resources such as ocean, tidal and instream hydrokinetic), solar (including solar energy equipment such as solar hot water heating and solar light pipe technology), wind, natural gas, and supply-side and demand-side energy efficiency (including combined heat & power systems, oxy-fuel combustion systems, and others).

The Business Council for Sustainable Energy

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