

[Addressing Cost Concerns in the Climate Debate -- Focus on Offsets](#)

By Lisa Jacobson

June 10, 2009

Cleantech Blog: <http://www.cleantechblog.com/>

After hundreds of Congressional hearings and over a dozen legislative proposals, the House of Representatives took historic and concrete action last month to advance federal climate change legislation. Through a largely collegial and efficient committee "mark-up" of the American Climate and Security Act of 2009 (ACES), a deal was reached that earned the support of several conservative Democrats and one Republican. The bill establishes a national cap-and-trade program -- with opportunities for domestic and international offsets to help meet compliance obligations while containing costs -- as well as incorporating critical complementary energy policies.

The House is now poised to move the bill through other key committees with jurisdiction in June and could take floor action on the legislation as early as July.

Given the current state of the economy, the issue of cost was understandably central to the committee's debate. Concerns were raised that businesses and consumers would face higher electricity bills or incur other costs associated with the cap-and-trade program. In rebuttal, proponents of the bill spoke about the economic opportunities presented by transitioning towards a low-carbon and clean energy economy. Clear and sustained market signals that result from the cap on emissions will drive capital investments into existing technology solutions -- such as renewable energy, energy efficiency and other clean generation options. This new investment will make our economy more efficient and secure, while creating high-quality jobs in the US. As this transition takes time, offsets provide an important balancing mechanism in the face of economic downturn, for containing program costs while new technologies are developed and implemented.

Another refute to this argument was the flexibility at the heart of the cap-and-trade model. The bill's cap sets emissions limits that ramp down over time, and the ability to trade results in lower cost compliance costs. The cost-containment benefit of this market-based approach is further enhanced with the inclusion of a robust and high integrity offset program.

Offsets have an important role to play in the coming debates over ACES, both because they provide one of the best rebuttals to anti-cap and trade arguments about cost concerns, but also because they truly have a role to play in moderating the blow of energy cost increases in the short term while still promoting emission reductions outside of the cap. Furthermore, the combination of emissions trading and offsets drives over-performance and technology innovation and deployment, especially when a broad set of offset projects are eligible.

Ensuring the environmental integrity of offset credits is essential to meet desired emission reduction levels and ensure a well functioning cap and trade system. Real and additional offsets must be the standard for program integrity, and independent, third-party monitoring and verification requirements are essential to ensuring that greenhouse gas emission reductions are delivered. The offset provisions in ACES provide a foundation for quality domestic and international offsets to help achieve the proposed US emission reduction targets more cost-effectively. However, leading up to possible floor action, improvements to the bill should be considered that expand opportunities for both domestic and international offsets.

Currently, ACES allows up to 2 billion tons of offsets to be used for compliance purposes. Of this, 50 percent can be offsets generated in the United States and 50 percent can be generated outside the U.S. If, in any given year, the EPA determines that the domestic limit will not be reached, the international limit can be increased to 1.5 billion tons per year, which offers important added cost savings.

A key change from previous draft proposals is the removal of a 25 percent discount on domestic offsets. According to a preliminary analysis by US EPA, this change will result in an 11 percent increase in the use of offsets and lowers allowance prices by 7 percent in each year.

International offsets are subject to discounting starting in 2018, however, which dampens their cost containment benefits. In addition to discounting provisions, international offsets face additional limitations, such as restrictions on the countries where offsets can be generated. Under ACES, only offsets that are generated in a country that has entered into an agreement with the US can qualify. US EPA has the ability to accept offsets issued under the United Nations Framework Convention on Climate Change, such as the Clean Development Mechanism, but the current language leaves considerable uncertainty. Because a domestic offsets program will likely take a few years to operationalize, international offsets will be critical bridge to filling the supply gap left by domestic offsets, and providing cost containment in the early years of the program.

As a start, discounting of international offsets should be removed, and clarity is needed on the role of international offset eligibility, especially for CDM projects. Increasing the eligibility of high quality offsets – inside and outside the US -- reduces the cost of the program to consumers and businesses, while advancing the objectives of the program – greenhouse gas emission reductions. If the political opposition continues to raise cost concerns in order to question the legitimacy of climate change legislation, offsets certainly provide one crucial component of the answer.

Lisa Jacobson is the President of the Business Council for Sustainable Energy, a coalition of business and trade associations representing the energy efficiency, renewable energy and natural gas industries in the United States.