
Alternative Approaches to Additionality

EPRI GHG Offset Policy Dialogue

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Presentation Overview



- Additionality in Concept
- Additionality in Practice
 - Project-Specific vs. Standardized Testing
- Additionality and Policy Objectives



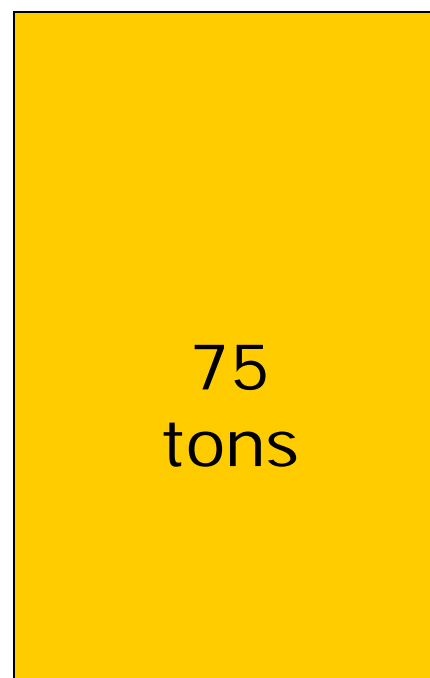
Additionality Concept

No Offset Market

capped emissions



uncapped emissions

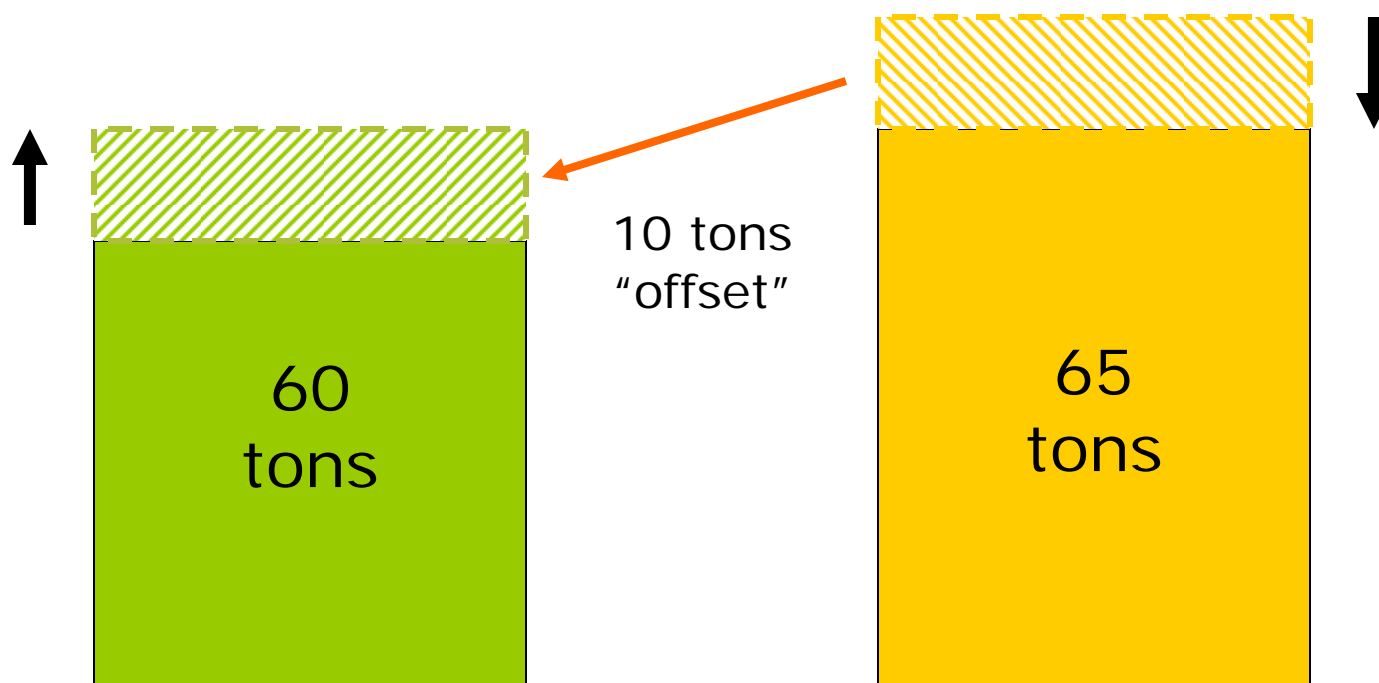


Additionality Concept

With Offset Market

capped emissions

uncapped emissions



What Are We Really Asking?



- **Additionality:** Would the project have happened *in the absence of the offset market?*
 - Yes or No
 - **Baseline:** What would have happened *in the absence of the offset market?*
 - The Project?
 - Another Alternative?
 - Continuation of Current Activities?
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Additionality in Practice



- There are no perfect tests or empirically correct answers
 - Two basic approaches:
 - ***Project-Specific Assessments***
 - Barriers Tests
 - Investment Tests
 - “Project-in, Project-out” Tests
 - ***“Standardized” Criteria***
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Standardized Additionality Tests



- **Screen projects according to a combination of objective criteria...**
 - Involves a predefined technology/practice
 - Does not involve predefined “common practice” technologies/practices
 - Is not mandated by law
 - Started after date X
 - Has lower emissions than a predefined benchmark (performance standard)
 - Is below/above a certain size
 - Is not a (pre-specified) “least-cost” option
 - Etc....
 - **Objective:**
 - **Projects that meet the criteria will be (mostly) additional**
 - **Projects that don't will be (mostly) not additional**
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Standardized Additionality Tests



- **Why use standardized tests?**
 - ❑ Lowers transaction costs for project developers
 - ❑ Provides greater certainty for project developers and investors
 - ❑ Increases transparency
 - ❑ Simplifies validation of projects
 - ❑ Makes regulators' jobs easier
 - ❑ Allows observers to assess environmental integrity based on the rules rather than second-guessing regulatory decisions
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Challenges for Standardized Tests

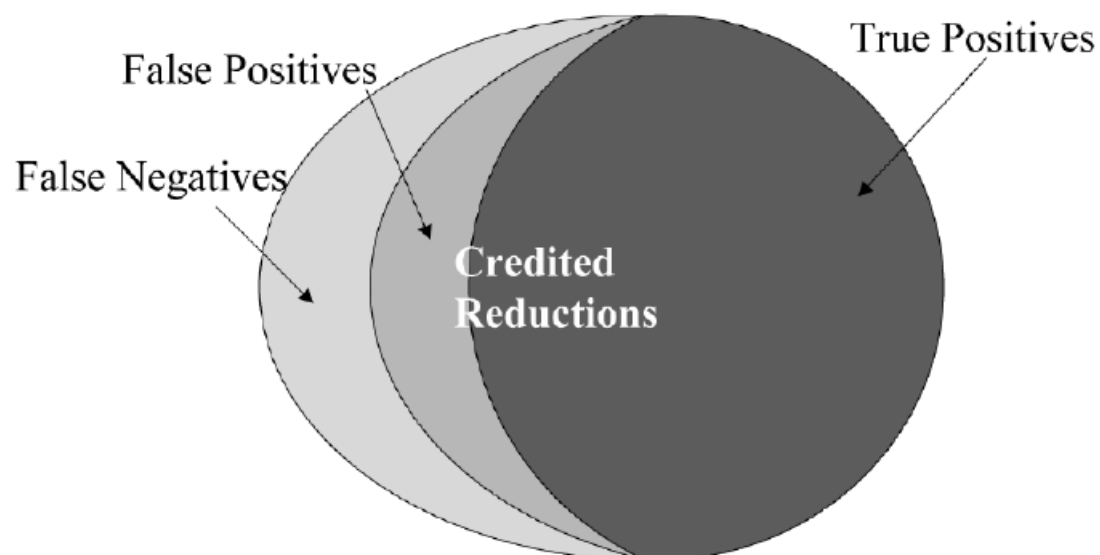


- **Standard additionality tests work best where:**
 - There are clear dividing lines between baseline activities and “additional” activities
 - Those dividing lines can be clearly specified using objective criteria
 - **Options:**
 - Focus on project types amenable to standardized tests (CCAR, Climate Leaders)
 - Adopt “hybrid” additionality tests, i.e., combine objective criteria with barrier or investment tests (Offset Quality Initiative)
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What's The Real Objective?

- All tests are prone to error...

False Positives – Phantom Reductions

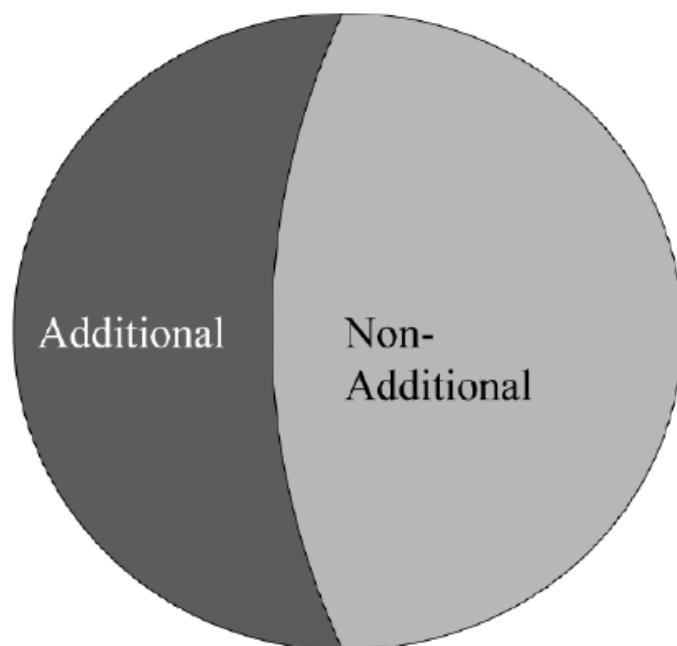


False Negatives – Lost Mitigation Opportunities

Source: Trexler, Broekhoff, Kosloff 2006

What's The Real Objective?

- Rate of error depends on stringency of tests – and on what is being tested...



Theoretical Mitigation "Supply"

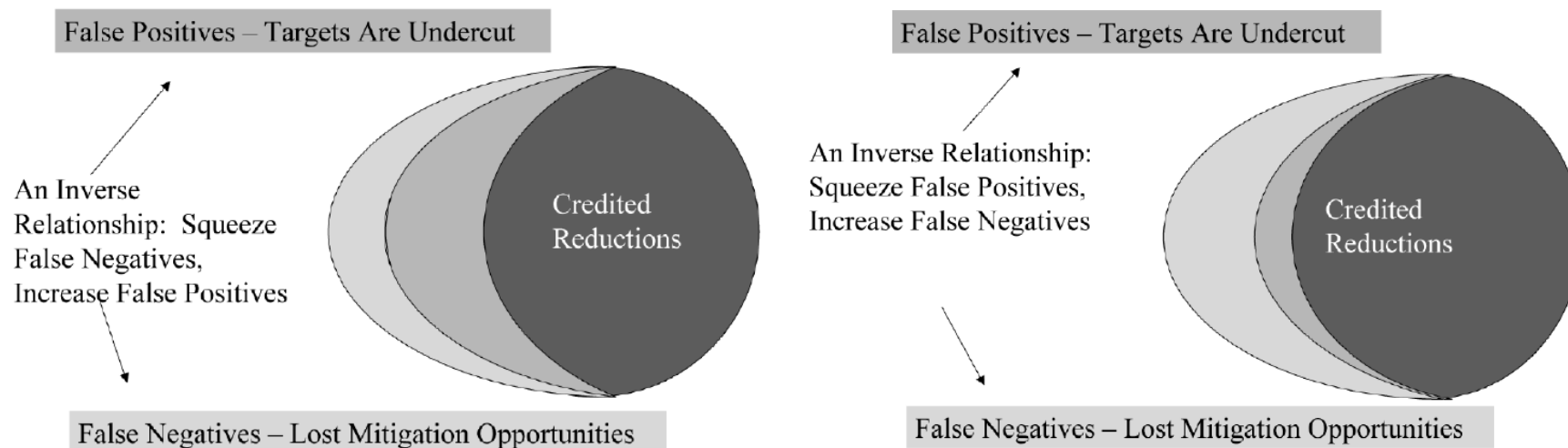
- If everything displaces coal
- If all efficiency gains count
- If all behaviors count
- If all regulations count
- If all nuclear counts
- If all forestry counts

There are MANY things happening that "reduce" GHG emissions

Source: Trexler, Broekhoff, Kosloff 2006

What's The Real Objective?

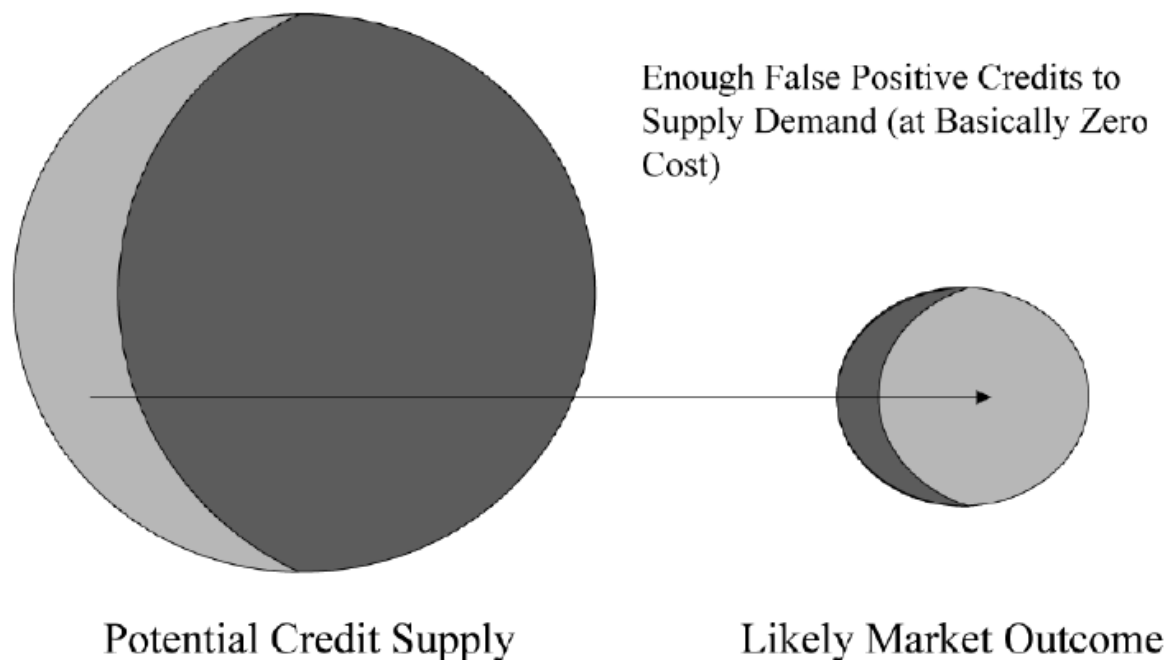
- Reducing one kind of error will increase the other...



Source: Trexler, Broekhoff, Kosloff 2006

What's The Real Objective?

- Overall outcomes depend on the size of the market (demand)...



Source: Trexler, Broekhoff, Kosloff 2006

What's The Real Objective?



- The “right” additionality tests depend on the kind of market you create and your policy objectives...
 - What kinds of activities will receive credit?
 - How big will market demand be?
 - How important are:
 - Flexibility?
 - Transaction costs?
 - Transparency?
 - Investor certainty?
 - What is the right balance between environmental integrity and cost containment goals?
 - How might this balance evolve over time?
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