Emerging U.S. Offsets Program Designs

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Key Points

- Update on Emerging Cap-and-Trade Designs: WCI and MGA
- The Regional Greenhouse Gas Initiative’s Offsets Component
  - The Positive List Approach
  - Limits on Offsets Use
  - Offsets as a “safety valve”
Emerging Cap-and-Trade Designs
Western Climate Initiative

- 7 States, plus British Columbia, Manitoba and Quebec
- 6 Observer States, 2 Observing provinces, and 6 Mexican observers
- Reduction Goal: 15% below 2005 levels by 2020
- Goal is to have a proposed program design in August
Midwest GHG Reduction Accord

- Six States, plus Manitoba
- Observers South Dakota, Indiana, Ohio, and Ontario
- Jointly Develop Regional Cap-and-Trade Program
- Goal is to reach agreement on program design by November 2008
NE Regional Greenhouse Gas Initiative

- 10 States
- Scope: Power Plants Only
- Emissions source-based like EU ETS
- Program’s first compliance period is January 2009

Source: www.rggi.org
Regional Cap-and-Trade Efforts

30 States: 23 Active Participants; 7 Observers

- Regional Greenhouse Gas Initiative (and observers)
- Western Climate Initiative (and observers)
- Midwest Cap-and-Trade Accord (and observers)

Southeast RGGI?
RGGI Offsets Component
RGGI Offsets

- Offsets—5 Initial Types with Clear Requirements:
  - Natural Gas, Propane, Heating Oil Efficiency;
  - Land to Forest;
  - Landfill Gas Capture & Combustion;
  - Methane Capture from Animal Operations; &
  - SF$_6$ Leak Prevention.
  - Add additional types over time as appropriate.

- Quantitative Limit on Offsets: The RGGI “Offsets Valve”
  - Initial 3.3% limit on offset use
  - $7 trigger increases to 5.0%
  - $10 trigger increases to 10%

- Geography: Initially inside the United States; but recognition of CDM Offset Credits above $10
The Positive List Approach

• Objectives:
  – Minimize administrative burden for states
  – Identify list of approvable offset projects by type; and
  – Establish clear requirements up front.

• Allows flexibility in applying key offset criteria:
  – Real, Surplus/Additional, Verifiable, Permanent & Enforceable (RSVP&E)
  – Difficult concepts like additionality and permanence can be applied differently depending on the offset types

• Allows selection of offset types only as program administrators (and stakeholders) are comfortable

• Alternative to quasi-judicial board approach, which would have been costly to administer, if not impossible for a group of states
The Initial Positive List

• Offsets—5 Initial Types with Clear Requirements:
  – Natural Gas, Propane, Heating Oil Efficiency;
  – Land to Forest;
  – Landfill Gas Capture & Combustion;
  – Methane Capture from Animal Operations; &
  – SF$_6$ Leak Prevention.
  – Add additional types over time as appropriate.

• New types can be added, but require a rulemaking procedure in the RGGI states
Quantitative Limit on Offsets

• Quantitative Limit on Offsets: Initial 3.3% limit on offset use
Geographical Limit on Offsets

- Initially, offsets may come from anywhere in the United States;
- Offsets from non-RGGI states require that a state agency in the non-RGGI state enter into an MOU with RGGI and agree to carry out certain oversight functions.
- Not clear how this MOU element will be carried out.
Offsets as a “Safety Valve”

- Initial 3.3% limit on offset use will increase if:
  - $7 trigger increases to 5.0%
  - $10 trigger increases to 10%
- Initial geographical limit on offsets to within the United States expands to include CDM/EU ETS allowances after $10 trigger
- Trigger “resets” in the next compliance period
Reflections

• Offset price triggers are perhaps the most criticized element of RGGI design
• Supply of offsets may serve as de facto limit on offsets use, particularly where the positive list of eligible offsets is short and rigorous in its requirements.
• Addition of offset types will be cumbersome, leading to suggestions for a “hybrid” approach that would allow developers to propose new types in a formal process.
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Questions?