

The Climate Trust's Experience and RGGI Offset Design

RGGI Stakeholder Workshop on GHG Offsets

Regional Greenhouse Gas Initiative

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Overview of Oregon CO₂ Policy

1997: First State Legislation Limiting CO₂ in the US

- **Regulates CO₂**
 - New power plants must offset a significant portion (~17%) of their CO₂ emissions
- **Unique Non-Profit Role**
 - Developer can comply by paying a per-ton fee to The Climate Trust, which acquires CO₂ offsets

The Climate Trust: Mission is Offsets

The Trust is a 501(c)(3) Non-Profit Corporation

- **Core program: Power plant offsets for Oregon**
 - Current pipeline:
 - Contracts: 10 projects, \$5 million, 2.1 million metric tons
 - In process: \$2.5 million more
 - \$20 million more committed by future power plants
 - Diverse portfolio of project types
 - Renewables, building efficiency, transportation efficiency, cogen, distributed generation, cement, permanent sequestration
- **Partnership Program: Acquire offsets for others**
 - ~\$1.5 million in commitments
 - Includes 2 power plants in Massachusetts, 1 in Montana
 - Offerings for large emitters & green leader companies

An Unusual Commodity

Emissions Reductions are Not Tangible

- **“It’s in the air, and it’s not there”**
 - Cannot physically take possession
- **Rudimentary market standards**
 - We faced buying in the “Wild, Wild West”
- **Therefore, 3 things are extremely important**
 - Selecting quality projects
 - Strong offset contracts
 - Quantification accuracy₄ -

Quality Projects: Additionality

Projects Must Create New Emissions Benefits

- **Mitigation measures that would not occur without offset project funding**
 - Excludes common practice, regulated activities
 - Money making projects eligible, if other barriers
- **Types of barriers offset funding overcomes**
 - Capital unavailable
 - Investment hurdle rate
- **Somewhat subjective; much effort**

Quality Projects: Selection Criteria

Rigorous Internal and External Review Process

- **Primary selection factors**
 - Cost effectiveness: \$/metric ton of GHG benefit
 - Reliability of technology
 - Reliability of project partner
- **Other project selection factors include:**
 - Monitoring & verification
 - Permanence
 - Guarantees
 - Location of project
 - Replicability
 - Expandability
 - Portfolio diversity
 - Co-benefits

Offset Contracts are Critical

Defining a New Commodity, Legally

- **Acquire any and all rights to reductions**
 - In voluntary & mandatory systems, currently & in future
 - No double counting
 - Seller exclusions & disclosures
 - Other party disclaimers
 - Define “bragging rights”
- **Transfer documentation**
 - Bill of Sale, Annual Offset Certificate, 3rd party sign off
 - Participation Agreements (Programs)
- **Guarantees, payment structures mitigate risk**

Quantification Accuracy

State-of-the-Art Baseline Studies and M&V

- **Baseline study**
 - Build in expected changes from business as usual
- **Monitoring & Verification Protocol**
 - Measurement technique
 - Periodic measurement
 - 3rd party verification
 - Funding plan
 - Escrow to ensure sufficient M&V funding
- **Engage experts for quantification work**

Best Decisions We Made

Policy Decisions that Enhanced our Results

- **Rigorous review process**
- **Emphasis on strong contracts**
- **Emphasis on accurate quantification**
- **Location: No restrictions (prefer OR)**
- **Acquiring indirect electricity offsets**
 - Stimulate 3 priority technologies
 - Renewables
 - Energy efficiency
 - Cogeneration

Improving on Oregon's Policy

More Flexibility Improves Process and Results

- **Allow all GHG, not just CO₂**
- **Allow > 2 years for offset contracting**
- **Allow regulators flexibility to set per-ton emission fees based upon market prices**
 - Oregon fee is below offset market cost, so we offset ~ 6%, not 17%
 - Ability to modify fee dampened in legislation

Indirect Emissions are Important

Ensuring Effectiveness and Equity

- **High priority mitigation technologies reduce indirect emissions:** Renewables, energy efficiency, cogen,
- **These technologies require end user decisions**
 - Inelastic electricity demand: limited CO₂ price response
 - \$1/ton = 1 mill/kWh when offsetting coal
 - \$1/ton = 1% - 2% of commodity price for electricity (75 mills)
 - Most efficiency decisions require low payback = high ROI
- **Active market intervention will be required**
 - DSM, renewable, & cogen programs, policies, or offsets

Options For Engaging End Users

Important to Ensure Effectiveness and Equity

- **Outside of Trading System**
 - Separate system of policies for end user technologies
- **Inside of Trading System**
 - Generator cap w/ contract-intensive offset program
 - Utility “CO₂ portfolio standard” w/ DSM programs-plus
 - Set asides: Provide limited allocations to end user reductions
 - Opt ins: Outsiders volunteer to be capped
 - Allow end user direct participation in trading system
 - Possible without double counting thru simple approach