

Insights from the NESCAUM Demo Projects: Implications for Offsets in RGGI

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First: NOx Trading Demo Project

- Early-mid 1990s, NESCAUM initiated a multi-stakeholder demonstration project on NOx trading
 - Background: SO2 trading program in CAAA
 - Would it work for NOx on a regional basis?
 - Incipient NOx requirements provided rationale:
 - Reductions beyond regulatory limits → potential credits/offsets
 - Resulting evaluation criteria and policy recommendations helped in developing subsequent state/regional NOx trading & ERC/offset programs

Next: GHG Demo Project

- After NOx demo project success, similar effort mounted for GHGs (1998-2002)
 - Background: GHG requirements someday
 - Could we delineate early reductions?
 - But, GHG regulatory context “volatile” →
 - Offsets discussion premature; criteria impossible
 - Demo project recast to:
 - “Test drive” specific projects, quantification methodologies, etc.
 - Better assess issues, policy context
 - Move stakeholders up learning curve

GHG Demo Project Players (1)

- Phase I: Started 1998, 14 companies, environmental groups, and NGOs from US and Canada as reviewers for 9 GHG projects

Tumbler front load clothes washers (energy eff.) NEEP	Power plant fuel switch to natural gas PG&E Generation	Hydro electricity production Ontario Hydro Generation
Landfill gas energy project PG&E Generation	Residential boiler conversions to natural gas KeySpan Energy	Battery operated shuttle buses Northeast Alternative Vehicle Consortium
Fuel cell energy production KeySpan Energy	Waste heat project Sunoco	Biomass fueled electricity project PSEG Global

GHG Demo Project Players (2)

- Phase II: Started 2000, built on Phase I, reviewed 9 more GHG reduction projects

<ul style="list-style-type: none">• Hunt's Point Market• Truck Stop Electrification• Solar Power Roof NESCAUM/CAC	KEFI Exchange TransAlta	Cogeneration North American Carbon
<ul style="list-style-type: none">• Nuclear Rerate• Wind Power Marketing Exelon Corporation	Building Energy Conservation Initiative State of New Hampshire	SF6 Management ConEd
<ul style="list-style-type: none">• Reduced Impact Logging• Coal Ash Reuse PG& E National Energy Group	Tufts Climate Initiative Tufts University	Natural Gas Vehicles KeySpan

GHG Demo Project Results (1)

- Project case studies offered initial insights; highlighted policy difficulties
 - Quantification issues (no *GHG Protocol* then!)
 - How to credit early action
 - How to promote most cost-effective reductions
 - Understanding of leakage issues
 - Trade-off between accuracy and simplicity (and impact on transaction costs)

GHG Demo Project Results (2)

- Issue paper developed, addressing
 - Additionality
 - Quantification methodologies
 - Baseline calculations
 - Potential consequences of trading regimes
 - Credit/offset ownership
 - Role of states & municipalities
 - Identification of ancillary environmental impacts
 - Sources of uncertainty

GHG Demo Project Results (3)

- Focus shifted to entity-wide GHG emission reduction registries
 - Evaluation of 1605(b)
 - Review of existing registries
 - Design criteria for registries
 - Functions of registries
 - Etc.

The Time is Much More Ripe (1)

- State-of-the-Art has progressed rapidly
 - WRI & WBCSD *GHG Protocol*; *EU ETS*
- RGGR being designed to serve multiple data functions, including
 - Hold voluntary & project-level data (key for offsets)
 - Coordinate with CCAR & WEF
- RGGI provides incipient regulatory driver
 - Other state initiatives would benefit too, e.g., MA & NH “4-P” regs, NEG/ECP commitments...

The Time is Much More Ripe (2)

- **Result:**
 - Confident that RGGI can adopt robust GHG project evaluation protocols and/or performance standards needed for offsets
- **BUT, state regulators still have reasonable concerns about implementing offsets, including:**
 - Environmental integrity concerns
 - Resources & administrative concerns
 - Legal concerns

Environmental Integrity Concerns (1)

- **Are offsets rigorously quantified?**
 - Accepted protocols or performance standards
- **Real?**
 - Robust reporting & monitoring protocols
- **Surplus?**
 - Additionality tests and/or performance standards
- **Permanent?**
 - Defined offset “lifespan” or fixed term contracts
- **Verifiable / Enforceable?**
 - 3rd-party? Random checks? Certification?

Environmental Integrity Concerns (2)

- How to deal with leakage?
 - Report entity-wide emissions before registering projects? Approach via allocations?
- How to define the baseline?
 - Credible and practical guidelines for baseline calculations and/or use performance standards
- Co-benefits in project location?
 - Keep in RGGI region?
- Future progress & technology incentives?
 - Progressive performance standards?

Resources & Administrative Concerns

- How should offsets be administered?
 - By individual states?
 - On a regional scale (e.g., through RGGR)?
- How can the burden on states be minimized?
 - Regional consistency, simplicity, clarity, and predictability (e.g., performance standards)
 - Same is true for participants!
- How can future viability and commonality be maximized?
 - Target consistency with EU ETS, *GHG Protocol*, other international efforts & partners...

Legal Concerns

- Can offsets be administered regionally when enforcement authority lies with the state?
 - Explore data flow options to collect and process regionally, but enforce locally?
- How are reductions ensured in buyer-seller transactions or buyer-provider disputes?
 - Specify liability up-front? Establish acceptable contractual protocols / verification?
- Can one own offsets but not the underlying assets (e.g., forest sequestration)?
 - Copy West Australia Carbon Rights law?

Conclusion

- **Benefits of including offsets can be great:**
 - Can reduce regulatory costs and leakage
 - Can motivate action in non-regulated sectors
 - Can motivate greater technology development
 - Can provide ancillary environmental benefits
 - Can lead to improved inventories, etc.
- **BUT, need to address state concerns if offsets are to be incorporated successfully**
 - Start small (limited) and implement incrementally
- **Demo projects showed that collaboration and effort across stakeholder parties is vital**
 - So RGGI is on the right track with engagement!

***Thank you for your time
and attention!***

