

Developing a Framework for Offset Use in RGGI **Opportunities and Risks**

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Overview

- Context
- Bases for Broad Offset Rule
- Reasons for Caution
- Process Options
- Framing the discussion

Context

- **Objectives**
 - Drive investment in climate solutions
 - Reduce compliance costs
- **Flexibility mechanisms**
 - Allowances
 - Set asides
 - Opt-ins
 - Offsets
- **Timing**
 - April 2005
 - Size and effective date of caps
 - Phase II

Offset Types

- Direct emission reductions
 - Fuel switching (i.e., from oil to natural gas)
 - Fugitive emission reductions (CH_4 , HFCs, SF_6)
- Indirect/avoided emission reductions
 - Energy efficiency
 - Renewable energy
- Sequestration
 - Reforestation and afforestation
 - Forest conservation and management
 - Soil sequestration (e.g. no till agriculture)
 - Carbon capture and geological storage

Bases for Broad Offset Rule

- Climate change is a global problem
 - Sector or geographic origin of GHG emission reductions do not matter as long as they are real
- Offsets are part of long term solution
 - Slow transition to a lower carbon economy
 - Carbon offsets can provide a bridge while reducing economic costs
- Many offset efforts underway that are already making progress in exploring these issues
- Model for national level program – most important contribution of RGGI

Bases for Broad Offset Rule

- Limited options for emission reductions on site for existing electric generators
 - Energy efficiency improvements
 - Fuel switching
 - Reduce output
 - Repower
 - Shutdown
 - Long term – clean coal with carbon capture and storage? Other?

Bases for Broad Offset Rule

- Carbon price signal benefits:
 - Leverages electric generator cap to achieve additional emission reductions from other sectors
 - Promotes innovation/emission reductions
 - Drives other sectors to manage and reduce emissions prior to regulatory requirements
 - Promotes learning regarding the costs of reducing emissions

Bases for Broad Offset Rule

- Co-benefits can be significant
 - Air quality benefits (NO_x, PM, SO₂)
 - Economic development
 - Human health and societal benefits
 - Water quality benefits
 - Biodiversity preservation/ Habitat restoration

Offset Risks

- Risk of undermining RGGI goals
 - Primary goal is to reduce emissions from power plants
- Risk of undermining cap
 - Low confidence in our ability to ensure additionality
- Collateral environmental harms
- Enforceability
- Permanence

Offset Risks

- Very little experience in this arena
 - No established objective criteria for offsets
 - No consensus on eligible project types
 - No consensus on best practices for offset programs
 - Potentially high transaction costs/ drain on staff resources

Offset Risks

- Other strategies can achieve offset objectives
 - Reducing demand curve will reduce electricity price impacts
 - Higher revenues from increased electricity prices can more than offset compliance costs for generators
 - Other policies (or allowance allocations) can drive investment in offset technologies

Process Options – Eligibility Standards

Project Specific Procedures	Performance Standards
States adopt broad eligibility criteria* and require case by case review	States adopt specific standards for project types
Subjective implementation by state regulators or expert group	Objective implementation by state regulators or third party
Uncertainty for developers/ investors	Certainty for developers/ investors
Requires case by case review to ensure additionality (high transaction costs)	Starts narrow but can expand and update over time
Case law method will streamline over time	Can be phased in over time
Developers may propose broadest set of offset projects at outset	

*(real, quantifiable, surplus, enforceable, permanent)

Process and Design Options

- **Process decisions:**
 - Eligibility
 - Certification
 - Reporting
 - Administration
- **Design decisions:**
 - 3rd party vs. state certification
 - Percentage limit on offsets use
 - Discounting to benefit the environment
 - Geographic limit
 - Reporting requirements

Further Discussion

- Which type of technologies are best suited to
 - Set Asides
 - Opt-ins
 - Offsets
- For which technologies can we develop performance standards?
- Are other certification processes feasible for RGGI? How would they work?
- Can we design an offsets program that phases in over time?
- What other policies are available to achieve offset goals?