

MARKET VIEW

Keeping a lid on costs

The offset provisions of the Waxman-Markey climate and energy bill provide a crucial means to lower its costs – but the Senate would do well to improve upon them, says **Lisa Jacobson**

Passage of the American Climate and Security Act of 2009 (ACES) – the Waxman-Markey bill – by the House of Representatives in June marks a dramatic shift in US climate change and energy policy. For the first time, a full body of Congress took the historic step of passing legislation to create a national, economy-wide cap-and-trade programme to reduce greenhouse gas (GHG) emissions. The bill also includes a domestic and international offset programme to help meet compliance obligations while containing costs, as well as incorporating critical complementary energy policies.

When viewed on top of enactment earlier in the year of a large-scale stimulus plan that provides billions of dollars to clean energy technology deployment and infrastructure investment, action on ACES shows that the US is charting a new course. Congress is beginning to set the stage for a transition to a low-carbon, clean energy economy.

The deal reached in the House of Representatives was carefully crafted to attract votes from Mid-West and conservative Democrats as well as from a block of moderate Republicans. The politics of energy and climate change policy were seen in the intense whipping effort and the ultimate results of the vote. Local energy resources and geography rather than party affiliation dictated positions on the bill, and the floor debate focused largely on the cost of reducing GHG emissions.

Given the current state of the economy, this is understandable. Concerns were raised that businesses and consumers would face higher electricity bills or incur other costs associated with the cap-and-trade programme. In rebuttal, proponents of the bill spoke about the economic opportunities presented by moving towards a low-carbon economy.

It was argued that clear and sustained market signals that result from the cap on emissions will drive capital investments into existing technology solutions – such as renewable energy, energy efficiency and other clean generation options. This new investment will make the US economy more efficient and secure, while creating high-quality domestic jobs.

As this transition will take time, offsets provide an important balancing mechanism in the face of economic downturn, by containing programme costs while new technologies are developed and implemented.

Offsets will continue to have an important place in the coming debates in the Senate this autumn as it crafts companion legislation to

ACES. As an organisation focused on clean technology deployment, the Business Council for Sustainable Energy (BCSE) and its members firmly believe that ensuring the environmental integrity of offset credits is essential to meet desired emission reduction levels and ensure a well functioning cap-and-trade system. Real and additional offsets must be the standard for programme integrity, and independent, third-party monitoring and verification requirements are essential to ensuring that GHG emission reductions are delivered.

The offset provisions in ACES provide a foundation for quality domestic and international offsets to help achieve the proposed US emission reduction targets more cost-effectively. However, as the Senate makes its mark on the legislation, improvements should be considered that expand opportunities for both domestic and international offsets.

Currently, ACES allows up to 2 billion tonnes of offsets to be used for compliance purposes. Of this, 50% can be generated in the US and 50% can be generated outside the US. If, in any given year, the Environmental Protection Agency (EPA) determines that the domestic limit will not be reached, the international limit can be increased to 1.5 billion tonnes a year, which offers important added cost savings.

Having steady sources of high-quality offsets will be especially important in early years of the programme to mitigate costs. To further enable this, the Senate should expand the existing programmes that are eligible to deliver early-year offsets under ACES. There are a range of existing, high-quality initiatives and registries that are facilitating offset investments now, and they should be eligible for EPA consideration.

A key change from draft proposals embodied in ACES is the removal of a 25% discount on domestic offsets – that is, offsets equivalent to five tonnes of carbon dioxide (CO₂e) would have been required to offset four tonnes of CO₂e. According to analysis by the EPA, this change will result in a significant increase in the use of offsets and will lower allowance prices.

International offsets are subject to discounting starting in 2018, however, which dampens their cost-containment benefits. In addition to discounting provisions, international offsets face other limitations, such as restrictions on the countries where offsets can be generated. Under ACES, only offsets that are generated in a country that has entered into an agreement with the US can qualify. The EPA has the power to accept offsets issued under the UN Framework Con-



**Environmental
Markets Place**
Fall 2009 Conference
October 20 –23, 2009
Houston, TX



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vention on Climate Change, via the Clean Development Mechanism, for example, but the current language leaves considerable uncertainty. Because a domestic offsets programme will likely take a few years to get up and running, international offsets will be a critical bridge to filling any supply gap left by domestic offsets, and helping to reduce compliance costs in the early years of the programme.

As a start, the BCSE recommends that discounting of international offsets be removed, and seeks more clarity on the role of international offset eligibility, especially for CDM projects. Increasing the eligibility of high quality offsets – inside and outside the US – reduces the cost of the programme to consumers and businesses, while advancing its objectives – GHG emission reductions. If the political opposition continues to raise cost concerns in order to question the legitimacy of climate change legislation, offsets provide one crucial component of the answer.

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