



February 1, 2008

To: Western Climate Initiative Offsets Subcommittee
Regarding: BCSE Recommendations on WCI Offsets Design Issues
Submitted Via: WCI Website

On behalf of the members of the Business Council for Sustainable Energy (the Council), we appreciate the opportunity to provide comments on the Western Climate Initiative (WCI) program questions for designing an offsets system for WCI's greenhouse gas cap-and-trade system. The Council looks forward to working with WCI and, in particular, the Offsets Subcommittee, as you move forward with program design. We remain available to discuss our recommendations in further detail and specifically request the opportunity to meet with the Offsets Subcommittee chair in the coming weeks.

Introduction

The Business Council for Sustainable Energy is a broad-based coalition of energy efficiency, natural gas and renewable energy industries that advocates energy and environmental policies that promote markets for clean, efficient and sustainable energy products and services. The Council's coalition includes power developers, equipment manufacturers, independent generators, green power marketers, retailers, and gas and electric utilities, as well as several of the primary trade associations in these sectors. We have several members who are based in the WCI region as well as others that are very active in the region's markets and clean energy activities including Sempra Energy, PG&E, PPM Energy, SMUD, First Environment, Inc., GE Wind, Calpine, 3 Degrees, Enel North America, and Solar Turbines.

The Council and its members have been working consistently with state, federal and international policymakers on market-based measures to reduce greenhouse gas emissions since its inception in the early 1990s. The Council was the first industry coalition to support a binding multilateral regime to address climate change. The coalition supports the establishment of market-based programs for clean energy technology innovation, economic efficiency and enhanced energy security. We view the WCI cap-and-trade program as an important vehicle to reduce greenhouse gas emissions in the western region.

BCSE Recommendations on Offsets Design Issues

The following comments address recommendations on specific program design questions under consideration by the Offsets Subcommittee, building upon comments previously provided by the Council to WCI in November 2007 (see BCSE at http://www.westernclimateinitiative.org/view_comments.cfm):

1. Should the WCI allow offsets as a compliance mechanism?

As outlined in the Council's November 2007 comments to the WCI Partners, BCSE strongly recommends that the WCI cap-and-trade program allow offsets as a compliance mechanism to provide compliance flexibility, lower compliance costs and encourage technology innovation and deployment in the Western region.¹ The creation of an offset program will enable non-capped sectors to participate in creating additional reductions beyond levels set by the WCI Partners, among the other advantages of an offsets program outlined by the subcommittee under question one of the Offsets Options Paper.

¹ The Council submitted its position paper on offsets to WCI Partners in November 2007; it can also be found at: *Recommendations for a Federal Greenhouse Gas Offset Program*, BCSE, September 2007, http://www.bcse.org/publications/press_releases/BCSE_Offset_Principles_final_9_5_07.pdf.

The Council wishes to call the subcommittee's attention to our previously offered recommendations to ensure the utmost integrity with respect to the design and implementation of the WCI offsets program:

- Emissions offsets must be real, additional, permanent, independently verifiable, enforceable, measurable, and transparent
- Promote broad sector and activity eligibility for offsets
- Permit broad use of emissions offsets
- Reward early action to reduce greenhouse gas emissions
- Avoid placing geographical or quantitative restraints on the use of offsets
- Promote linkages with other domestic and international offset programs, and permit fungible use of eligible offsets generated from within such programs
- Utilize a standards-based approach for offset projects while allowing for case-by-case review of projects without pre-approved methodologies²
- Employ multiple tests for demonstration of offset "additionality"³
- Utilize standardized emission factors

2. *a) Should the WCI allow offsets (only) from projects located within its Partner jurisdictions? and, b) Should the WCI allow offsets from projects located outside the WCI (either in the rest of North America or internationally)?*

The WCI should not place geographical restraints on the use of offsets within the WCI cap-and-trade system. Further, the Council strongly recommends designing the WCI cap-and-trade program to link with other compatible regional, national and international cap-and-trade programs to ensure lowest-cost compliance and increase global market liquidity. The Council supports strong linkages between the WCI program and the Regional Greenhouse Gas Initiative (RGGI) and the European Union Emissions Trading System (EU ETS), provided such linkages are based on comparable environmental commodities, and based on allowance transactions that are transparent and verifiable.

3. *a) Should there be quantitative limits on the use of offsets (perhaps based on their location) to meet compliance obligations?*

The Council recommends that neither quantitative limits nor geographic restraints be placed on offset projects as part of the WCI cap-and-trade program. Quantitative and geographic limitations on offsets could significantly affect the availability of low-cost offsets within the region, ultimately causing an increase in compliance costs, hindering the development of WCI's offset market, and possibly putting the region's affected entities at a competitive disadvantage compared with affected sources in other offset markets.

4. *a) Should the WCI decide by August 2008 upon an initial list of approved project types, possibly including approved baseline and monitoring methodologies, prior [sic] cap-and-trade design?*

WCI should make every endeavor to decide upon an initial list of approved project types, possibly including approved baseline and monitoring methodologies, prior to the release of the WCI Memorandum of Understanding outlining the cap-and-trade program design in August 2008. However, the Council recognizes the short time frame in which WCI Partners have to develop the offsets program, and therefore recommend that WCI, at minimum, set a list of project types by this deadline, leaving additional time to develop baselines and methodologies. WCI should draw upon existing methodologies utilized by RGGI and the Clean Development Mechanism (CDM), which should allow for the timely development of an offset system. As previously noted, the Council supports using a standards-based offsets program in lieu of a case-by-

² The Council supports using a standards-based offsets program in lieu of a case-by-case review of individual offsets projects, which has caused issues with efficiency and consistency in the case law approach used by the Clean Development Mechanism.

³ In developing standards for additionality, the Council wishes to caution against the use of pure financial additionality tests in determining offset project eligibility. Financial additionality can be part of a range of factors, but it should not be the only way of proving additionality, nor should it be weighted more than other additionality tests. In our experience, financial additionality tests alone deter good projects and weaken the credibility and market power of offset programs. Further, financial additionality tests are subject to gaming and cannot reasonably account for market behavior. Instead, we recommend practical application of a number of "barriers tests," as is recommended by the World Resource Institute's Greenhouse Gas Protocol for Project Accounting at:

http://www.ghgprotocol.org/DocRoot/m1Tv5lnUuFTjYZx3x1ev/GHG_Project_Protocol.pdf

case review of individual offsets projects, which has caused issues with efficiency and consistency in the case law approach used by the CDM.

5. a) *Bilateral linkage: Should the WCI link directly with other, rigorous cap-and-trade programs and allow fungibility of allowances among the two (or more) systems? and b) Unilateral linkage: Should the WCI allow the use of allowances from other, similarly rigorous cap-and-trade programs to be used as a compliance mechanism by capped sources in the WCI?*

WCI should establish linkages with other state and international greenhouse gas initiatives at the outset of the WCI cap-and-trade program. These linkages should demonstrate comparability, and should be verifiable and transparent. The WCI program should be designed to permit trading with compatible cap-and-trade programs and project-based initiatives elsewhere in the U.S. at the state, regional or federal level, as well as in other parts of the world.

Further, in our recommendations to the Allocations Subcommittee, the Council has urged the WCI Partners to consider an early action program that may include offsets from other regulatory offset schemes and/or high-quality voluntary schemes.⁴

Conclusion

Thank you for the opportunity to provide recommendations to the Western Climate Initiative Offsets Subcommittee.

If you have any questions or comments please feel free to contact me at (202) 785-0507 or via email at ljacobson@bcse.org.

Sincerely,



Lisa Jacobson
Executive Director

CC: Patrick Cummins, WCI

⁴ Early action programs such as those supported by state public utility commissions and other regulatory agencies (i.e., The Climate Trust in Oregon).