



Center for  
Clean Air Policy

# Offset Design for Oregon: A Straw Proposal

Stacey Davis  
Center for Clean Air Policy

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# Overview of CCAP

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- Non-profit environmental think-tank, founded by bipartisan governors in 1985, to work with governments to develop practical strategies to protect air quality and climate.
- Designed emission trading and climate policy measures for the European Community and a range of developing and Eastern European countries.
- Developed seminal paper describing a load-based cap and design challenges for the state of California.
- Working with states since 1992 to build climate change leadership (including CA, CT, MA, MD, ME, NJ, NY, OR, WA, WI).



# Presentation Goal and Overview

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- This presentation presents a straw proposal for the design of an offset program in Oregon.
- This proposal is a first effort to find “middle ground” following discussion with various stakeholders.
- The goal is to foster discussion on specific offset program design elements and potentially reach placeholder agreements on key provisions.

# Background

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- Offsets are avoided or sequestered emissions that occur outside of the boundaries of the load-based cap.
- Oregon could choose to recognize **some, all or none** of the potential universe of offsets as being equal to an allowance for compliance with a load-based cap.
- Offsets are being considered because they potentially offer lower-cost mitigation opportunities, greater program liquidity, encourage early actions in other sectors, and provide price discovery.

# Some Considerations

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- There is a tradeoff between program efficiency (lowest cost per ton) and any measure that would limit offset availability.
- Qualifying offsets should be high quality as they will be used for compliance in lieu of an allowance.
- Some limits seek primarily to ensure that co-benefits occur in Oregon, either by:
  - requiring actions from the power sector affecting emissions from Oregon load via limits on the share of compliance that can be met with offsets, or
  - limiting offsets to those that can be achieved in-state.
- Other limits seek to lower transaction costs.

# More on “co-benefits”

- Actions that ensure reductions in the OR power sector could:
  - Lead to cost savings through enhanced energy efficiency
  - Lead to new jobs and economic development
  - Better position the state for future compliance
- Actions that limit offsets to Oregon have the above benefits plus reductions in other pollutants.
- How important are these benefits vis-à-vis the core benefits of and rationales for an offsets program?  
Are they politically necessary?

# Key Design Questions

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- Should offsets be allowed?
- Should the amount of offsets be limited?
- Should offsets be limited geographically?
- Should offsets value diminish over time or expire?
- How should “additionality” be addressed?
- Which sectors/project types should be allowed to earn offsets?
- Which sectors/project types should NOT be allowed to earn offsets?
- How should “permanence” be addressed?

# Should Offsets be Allowed?

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**A. Yes, but with limits and provisions to ensure high quality.**

- **Rationale:** Offsets will enhance compliance flexibility, lower compliance costs, encourage early actions from other sectors, and provide price discovery. However, limits are needed to ensure high quality. Limits are also being proposed to ensure in-state benefits and limit compliance costs.

# Should the Amount of Offsets be Limited?

**A. Yes, the total number of offsets should be limited to 25% of the required reductions from the baseline.**

- **Rationale:** This is a compromise position that ensures substantial reductions from the power sector affecting emissions from OR load while also achieving the intended benefits of an offsets program.

# Should Offsets be Limited Geographically?

**A. Yes. A minimum of 50% of the offsets should come from Oregon.**

- **Rationale:** This is a compromise position ensuring significant co-benefits from Oregon while maintaining a high degree of compliance flexibility.

# Should Offsets Value Diminish Over Time or Expire?

**A. No. Offset projects should be granted credit for emissions reductions, as applicable, for 6 years, on a renewable basis with updated baselines and sector rules, or for a single 9-year fixed period. Once credits are awarded, their values are maintained.**

- **Rationale:** Limiting credit life or discounting over time discourages offset creation. The proposed approach acknowledges that offset standards change over time while seeking to provide a reasonable level of certainty for offset developers and buyers.

# How Should Additionality Be Addressed?

**A. Projects that are clearly not additional should be qualified using three simple tests:**

- **Regulatory Test**
- **State Incentives Test**
- **Timing Test**

**Projects meeting these tests should earn credit beyond a “top performing” baseline, defined as the top 20<sup>th</sup> percentile for the sector or project type in the region.**

**Rationale:** Additionality provides the integrity for an offset program. However, it is difficult to prove that a project would not otherwise have been in the baseline. The proposed simplified approach limits transaction costs and potential for gaming while encouraging high performance in GHG mitigation (while not rewarding inefficiency).

# Which Sectors/Project Types Should be Allowed to Earn Offsets?

**The state should develop rules for high priority sectors, for example, sectors:**

- **that are unlikely to be regulated in the future (e.g., direct emissions from small landfills, biodigesters, and the residential oil sector; existing transportation emissions);**
- **where significant, cost-effective emissions reduction opportunities are expected (e.g., cement); and/or**
- **that are politically important (e.g., forestry afforestation/reforestation).**

**Other sectors not otherwise excluded (see next slide) would need to petition for development of a standard protocol or approval on a case-by-case basis.**

In this way, this recommendation seeks to balance the desire not to pick winners with the desire to limit transaction costs.

# Which Sectors/Project Types Should NOT be Allowed to Earn Offsets?

Recommended exclusions include sectors where there are:

- Inherent additionality issues (e.g., forest preservation);
- Measurement difficulties (e.g., soil carbon sequestration); and
- Issues with cheating (e.g., HFC offsets from outside the country).

In addition, measures that are “inside the cap” (e.g., energy efficiency in Oregon and renewable energy delivered to Oregon, or “bundled RECs”) must be excluded to avoid double counting.

# What About “Unbundled RECs”?

- “Unbundled RECs” are renewable energy projects where the power is not delivered to Oregon.
- Allowing unbundled RECs as offsets could perversely encourage renewable energy projects where the power could be delivered to OR not to sell power to OR, reducing the likelihood for long-term renewable energy contracts.
- In addition, without limits, there is significant potential for contract shuffling, resulting in no “additional” GHG benefits.
- If unbundled RECs are allowed as offsets, they should not be credited with more GHG reductions than would be achieved through bundled RECs. In addition, it will be critical for them to meet the recommended additionality tests.

# How Should Permanence be Addressed?

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A. Afforestation/reforestation projects should be rewarded renewable temporary credits for a period of 6 years. Temporary credits may be replaced with permanent ones at any time or can be renewed at the end of the 6-year cycle provided the forests are still standing.

Rationale: The accrued value of afforestation/reforestation projects can be wiped out if trees are destroyed or removed. A limited time horizon helps ensure that debts can be paid back.

# Discussion Questions

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- Should offsets be allowed?
- Should the amount of offsets be limited?
- Should offsets be limited geographically?
- Should offsets value diminish over time or expire?
- How should “additionality” be addressed?
- Which sectors/project types should be allowed to earn offsets?
- Which sectors/project types should NOT be allowed to earn offsets?
- How should “permanence” be addressed?