

Offsets Subgroup

Midwestern Greenhouse Gas Reduction Accord

Public Meeting

July 29, 2008

Milwaukee, WI

Questions

- The Workplan charged the Offsets Subgroup with answering the following design questions:
 - Will offset credits be awarded for project-based reductions? If so, under what circumstances, and how will offsets interact with capped and uncapped sectors?
 - What are appropriate definitions and applications of the criteria by which offsets will be allowed (real, surplus/additional, verifiable, permanent and enforceable).
 - What approach will the program take regarding acceptance of offsets? Options are: Establish protocols specifying what is acceptable; allow applicants to propose offset protocols for approval; or some combination of the two.

Questions (continued)

- What project types will be allowed?
- How should quantification and monitoring protocols be developed, and who should develop them?
- Will there be a limit on:
 - Where offset projects may be located?
 - How many offsets may be used for compliance by covered entities?
- Should offsets from other trading systems be allowed?
- How will the offsets component be administered and registered and by whom? Will offsets be reviewed, approved, and monitored regionally, jurisdictionally or both?

Subgroup Tasks

1. Determine whether an offsets component is desired, and if so, what objectives the offsets component should be designed to meet.
2. Identify Options under Each Design Question.
3. Determine Information Needs.
4. Prepare Straw Proposal(s).
5. Evaluate Straw Proposal.
6. Develop a consensus recommendation from the Offsets Subgroup to the Advisory Group.

Timeline

Task or Milestone	Schedule	Status
Finalize Work Plan	May	Completed
Identify Objectives	April - June	Completed
Identify Options	April - June	Nearly Compl.
Determine Information Needs & Gather Data	April - June	Nearly Compl.
Prepare & Evaluate Straw Proposal(s)	June - Aug	In process
Make Recommendation	Aug - Sept	

Preliminary Findings

- Offset projects have the ability to lower the costs of reducing emissions of greenhouse gases by allowing regulated entities to pursue low-cost opportunities in unregulated sectors, which improves the economic efficiency of the cap-and-trade program
- Offset programs stimulate innovation in uncapped sectors and provide environmental and economic co-benefits
- Offset project evaluation criteria can be designed in a manner that will not compromise the environmental integrity of the cap-and-trade program
- Therefore, the Offsets Subgroup recommends that offsets be included in any cap-and-trade program developed

Preliminary Design Principles

- Offsets must not compromise the integrity of the cap-and-trade program, and therefore must meet the standards of real, additional, verifiable, permanent, and enforceable. (under development)
- The offset program must incorporate statistically valid accounting methodologies. (under development)
- The offset program must target only those sectors that are outside the cap-and-trade program, and should be designed to stimulate innovation in those sectors.
- The offset program must utilize best available data and scientific understanding adaptively over time in monitoring, measuring, verification and accounting.

Preliminary Design Principles (Continued)

- The offset program must be transparent to project developers, regulators and stakeholders.
- The offset program should be as administratively simple and cost effective as possible without compromising the other design principles.
- The offset program should be developed and implemented in a manner that will facilitate linkage with other cap-and-trade programs.

Preliminary Offset Requirements

- **Real** – Offsets must represent actual emission reductions and not artifacts of incomplete or inaccurate accounting. The effects of a project on GHG emissions must be comprehensively accounted for, and “leakage” in emissions must be factored into the quantification of emission reductions. Conservative assumptions should be used where there are uncertainties in quantifying emission reductions or removals.
- **Additional** – To be eligible for offsets, offset projects cannot be required by law or regulations, and must exceed baseline criteria. The baseline criteria must use standardized criteria (such as performance standards, financial feasibility criteria, or project start date) that serve to exclude “business as usual” projects from eligibility.
- **Verifiable** – Offsets must result from projects or programs whose performance can be readily monitored and verified, and whose effects can be measured with reasonable precision and certainty.

*****Definitions are under development, and are NOT finalized.*****

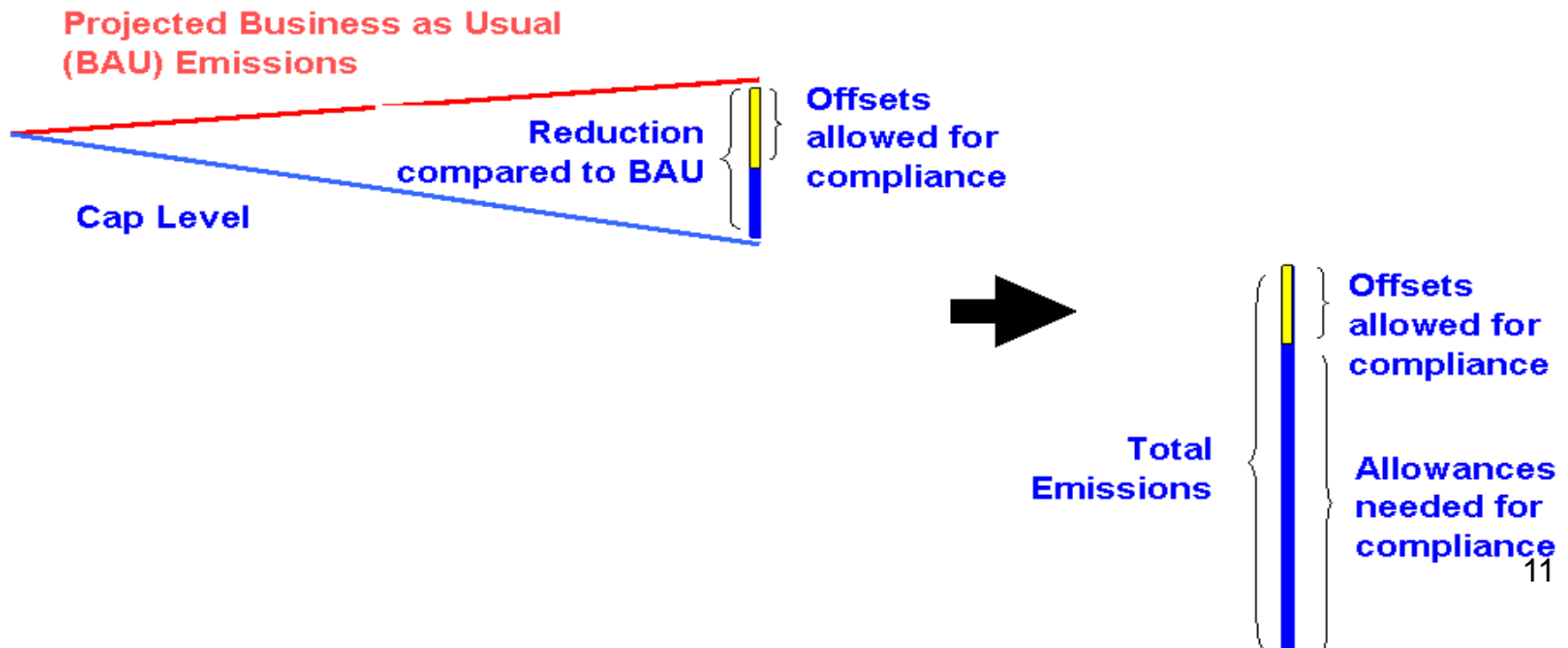
Preliminary Offset Requirements

- Permanent – (options)
 - Emission reductions or removals must be backed by guarantees if they can be reversed, i.e., re-emitted to the atmosphere. In particular, adequate safeguards should be established to minimize the risk of reversals, and a mechanism should be established that guarantees that offsets will immediately be replaced or compensated for if a reversal occurs.
 - Emission reductions or removals must meet established duration criteria. For emission reductions or removals that can be reversed (i.e., re-emitted to the atmosphere), adequate safeguards should be established to minimize the risk of reversals or make adequate compensation if a reversal occurs.
- Enforceable – Offsets must be consistent with regulations and administrative rules that define their creation, provide for transparency, and meet defined standards of ownership to avoid double counting.

*****Definitions are under development, and are NOT finalized.*****

Preliminary Offset Use Restrictions

- Constrain use of offsets to 10 to 50 percent of the emission reductions to be achieved by the program when compared to business as usual projections
- Actual limit should be based on economic modeling



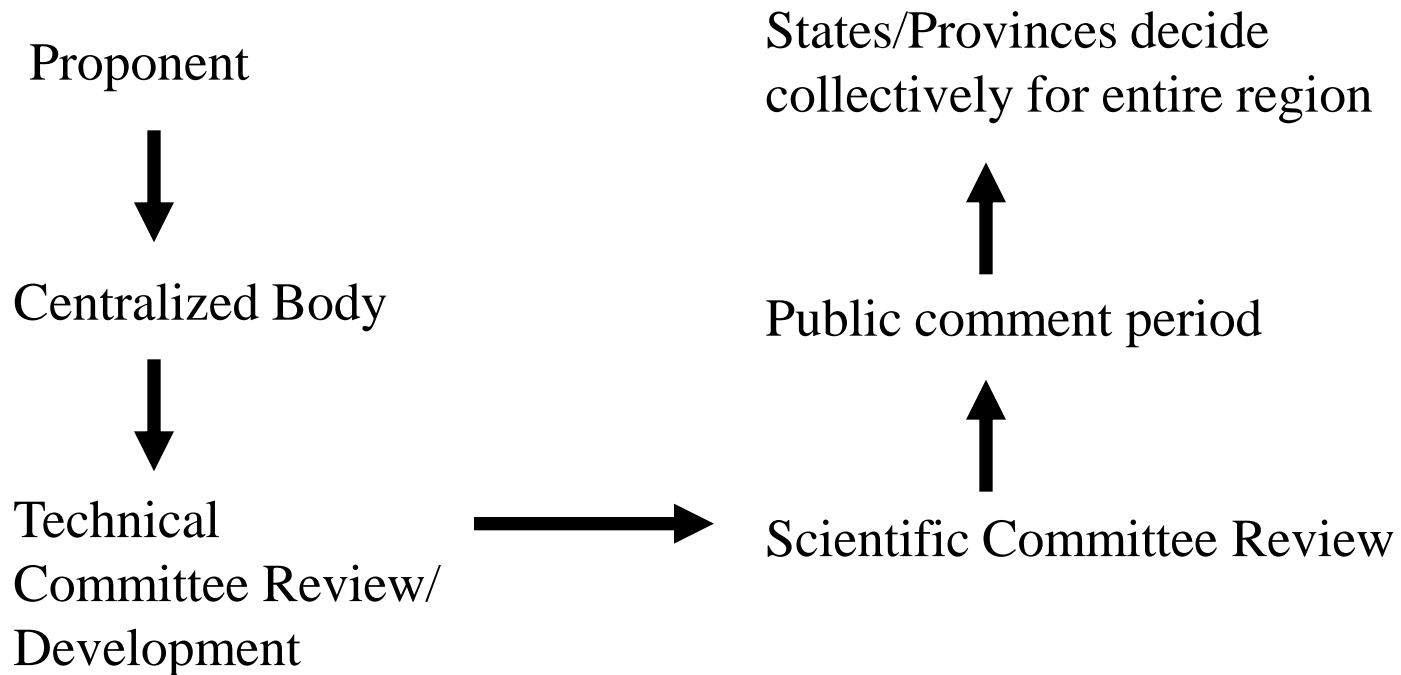
Preliminary Geographic Scope

MGA GHG Accord signatories & states/provinces that have:

- Entered into MOU with [MGA GHG Accord] signatories to carry out certain administrative tasks related to evaluation of offset projects; and/or
- Established a GHG regulatory program of comparable or greater stringency than that established by the MGA GHG Accord.

Project Methodology Adoption

- Hybrid Approach – Positive list with ability to expand as additional protocols developed.



Offset Application Review

Project Developer



3rd Party Verification



State/Province/
Regional Authority
Review



State/Province/
Regional
Authority Audit

Next Steps

- Build out Administrative Process for Review of Protocols and Applications
- Finalize Recommendations of Presented Design Elements
- Target is to Finalize Straw Proposal by September
- Therefore, for stakeholder comments to be fully considered in the Straw Proposal, we need to receive them by August 8 (note that comments received after that time will also be considered)
- Comments should be sent via the Midwestern Accord website at www.midwesternaccord.org