

# **The Offset Quality Initiative**

## **Comments to the Federal Trade Commission**

### **Regarding Carbon Offset Workshop Comment,**

#### **Project No. P074207**

**January 25, 2008**

## **I. Introduction**

The Offset Quality Initiative submits these comments to the Federal Trade Commission in response to its request for information regarding carbon offsets and renewable energy certificates (Carbon Offset Workshop Comment, Project No. P074207).

The Offset Quality Initiative (OQI) is a collaborative, consensus-based, voluntary effort that brings together the collective resources and expertise of its non-profit member organizations: The Climate Trust, California Climate Action Registry, Environmental Resources Trust, Greenhouse Gas Experts Network, Pew Center on Global Climate Change, and The Climate Group. The objectives of the OQI are:

- To develop and promote consensus policy positions for the optimal integration and treatment of greenhouse gas offsets in current and future state, regional and national climate change policy.
- To educate stakeholders on the opportunities and challenges presented by the integration of greenhouse gas offsets into regulatory and voluntary climate change mitigation strategies.
- To serve as a source of credible information on greenhouse gas offsets based on the diverse collective knowledge and experience of the Offset Quality Initiative members.
- To promote innovation in the greenhouse gas offset market and to provide information and guidance on best practices and policies.

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## II. Summary of Key Points

- **Program Design.** As greenhouse gas mitigation regulations are developed, credible and effective offset programs need rigorous procedures for qualifying offset projects and quantifying emission reductions from those projects. Eligibility criteria must ensure that a project is additional (would not occur without the funding or other resources made available through the sale of offset credits), have unambiguous and uncontested ownership (not counted by more than one entity), and that the emissions reductions are permanent (will not be reversed).
- **Additionality.** Determining additionality is an essential but imperfect process. No single approach is the best for all project types. The Offset Quality Initiative supports the development of cost-effective, robust, and flexible additionality assessment tools that provide a standardized, transparent and rigorous framework for the qualification of greenhouse gas offset projects.
- **The Role of Renewable Energy.** Renewable energy has a strong role to play in the fight against climate change and should be supported by multiple policies, including the greenhouse gas offset field, until a mandatory emissions cap for the electricity sector in the U.S. is in place.
- **Renewable Energy and Offsets.** Renewable energy projects can provide credible offsets when they are independently validated and verified against a credible GHG offset standard and do not reduce emissions from activities that:
  - are included in an emissions trading program; or
  - take place in a jurisdiction or sector in which binding limits are established on GHG emissions.
- **Renewable Energy Certificates and Offsets.** Renewable Energy Certificates (RECs) should not be treated as interchangeable with greenhouse gas offsets. As currently defined, the OQI does not believe that RECs represent additional greenhouse gas emission reductions.
- **Definition of RECs.** RECs should be defined as unique and exclusive proof that one MWh of electricity has been generated from a renewable resource.
- **Recommendations.** The OQI recommends that a number of important changes be made to the current electricity greenhouse gas emissions tracking and reporting systems in the United States to more accurately reflect the sale and transfer of greenhouse gas emissions reduction products, including offsets and RECs.
- **Proposed Treatment of RECs filed by The Climate Trust and Environmental Resources Trust.** As part of the OQI position development process, member organizations have the opportunity to present additional comments that they feel

are important, or clarifying positions that may not be a consensual OQI position or may be counter to the opinion of other OQI members. This alternative viewpoint is not reflective of the views of the OQI as a whole, nor of other individual OQI member organizations but is strictly that of the identified organization(s). The Climate Trust and ERT have chosen to pursue this option to propose a treatment of RECs as a decrement against an entities scope 2 emissions for purposes of carbon neutrality claims in the voluntary market. This position is presented in the final section of this document.

- **Ownership of emissions reductions filed by Environmental Resources Trust.** As part of the OQI position development process, member organizations have the opportunity to present additional comments that they feel are important, or clarifying positions that may not be a consensual OQI position or may be counter to the opinion of other OQI members. This alternative viewpoint is not reflective of the views of the OQI as a whole, nor of other individual OQI member organizations but is strictly that of the identified organization(s). ERT has chosen to pursue this option to present its view regarding the ownership of offsets credited to renewable energy generators in the U.S. Until ownership of emission reductions resulting from renewable energy projects can be demonstrated, ERT believes that renewable energy projects in the U.S. cannot generate offsets. Renewable energy projects in the developing world are eligible sources of greenhouse gas offsets because they fall under different legal and policy frameworks.

### **III. Offsets**

#### **A. Definitions and Property Rights of Greenhouse Gas Offsets**

##### **Offsets Defined**

A greenhouse gas offset displaces, avoids, or sequesters greenhouse gas emissions through the implementation of a specific project intended to compensate for emissions occurring at another source. The essential promise of a greenhouse gas offset is the achievement of a real and verifiable reduction in greenhouse gas emission levels equal to reductions that would have been realized by onsite mitigation measures by emitters.

Onsite greenhouse gas mitigation measures generally require mitigating entities to invest in greater efficiency or equipment retrofits or upgrades, which can be quite costly. By directing mitigation funding to equivalent greenhouse gas reducing activities offsite, greenhouse gas offsets can provide a less costly and equally effective means of achieving emissions reduction goals.

##### **Offset Property Rights**

The property rights represented by an offset include unique and exclusive proof that offset funding caused or will cause a project to be implemented, and that that project resulted in a measured amount of greenhouse gas emissions that were or will be avoided, displaced or sequestered.

## **B. Greenhouse Gas Offset Qualification and Quantification Criteria**

A credible and effective offset program needs rigorous procedures for both qualifying and quantifying offset projects. The qualification process demonstrates that a given greenhouse gas reduction project meets the criteria to serve as a greenhouse gas offset. Key qualification criteria include additionality, permanence and ownership of credits.

Quantification criteria ensure that the reductions resulting from an offset project are appropriately measured, verified and recorded. Key quantification steps include monitoring and verification, project baseline calculation and project leakage estimation.

These qualification criteria and quantification steps are presented and explained in greater detail in the following section.

### **B.1. Determining Greenhouse Gas Offset Additionality and Quantification Approaches**

Additionality is an essential determinant of an offset project's credibility and environmental benefit. For a project to be additional, the added revenue or other resources gained from selling the project's emission reductions should be reasonably expected to enable the project's implementation. By definition, without a carbon funding incentive, an additional project cannot be implemented. By making an additional project possible, offset buyers get credit for greenhouse gases removed, displaced or kept out of the atmosphere by the project. A non-additional (or business-as-usual) offset project fails on the fundamental promise of an offset to reduce the amount of greenhouse gases in the atmosphere in an equivalent amount to that of an onsite reduction project.

Because assessing additionality relies upon forecasting what would happen in a future without carbon funding, no assessment is perfect. Additionality tests must be stringent enough to ensure the environmental benefit of offset projects, yet lenient enough to allow the carbon market to support desirable projects. Additionality tests that are too stringent will falsely determine that many truly additional projects are non-additional; too much stringency prevents the carbon market from encouraging new low-carbon technologies. Additionality tests that are too lenient will allow many business-as-usual projects to be considered additional by the carbon market; too much leniency means offsets will provide few environmental benefits. The correct balance between the stringency and leniency of additionality tests depends upon the policy goals of a market or an offset buyer.

#### **Various Types of Offset Additionality and Quantification Assessments**

Many different attempts have been made to strike this balance. The three most common methods for determining the additionality of an offset project are:

1. Project-specific Assessments,
2. Standardized Assessment,
3. Hybrid Assessments.

#### **Project-Specific Additionality Assessments and Quantification**

Project-specific additionality assessments are individual or case-by-case examinations of the unique circumstances of a proposed offset project, specifically focused on the

implementation barriers a project faces. Most current voluntary market participants in the U.S. assess the additionality of their projects in this way, as does the Clean Development Mechanism (CDM) under the Kyoto Protocol. The financial aspects of a project—including the project’s available capital, access to traditional funding, rate of return, initial capital costs, and perceived risk—are evaluated. Any failed attempts in the past to implement the project without offset funding are considered. If it is determined that financial, technological or other barriers faced by a specific project will impede its implementation unless the project receives offset funding, the project is considered additional.

When a project-specific additionality assessment is used, a project-specific baseline (the greenhouse gases that would have been emitted if the project were not implemented) is created. This baseline determines the type of project or activity that would take place in the specific case of the project if offset funding were unavailable. The greenhouse gas emissions associated with this scenario are then quantified and established as the baseline, or “without-project” case.

Project-specific additionality and baseline assessments can be conducted by the project developer selling the emission reductions, a broker buying the emission reductions to resell to an emitter, or by the emitter directly buying the emission reductions. In a regulatory market, assessments are approved by overseeing regulators. The Executive Board of the Clean Development Mechanism under the Kyoto Protocol, the Voluntary Carbon Standard (VCS), and The Climate Trust all currently use project-specific additionality assessments.

#### *Advantages of project-specific assessments*

- Greater likelihood of correctly determining whether a project is additional because specific circumstances of a project can be assessed.
- Greater potential for accurately quantifying real reductions in greenhouse gas levels because the baseline scenario is project specific.

#### *Disadvantages of project-specific assessments*

- Allows project developers, brokers or buyers to present subjective assessments about a project’s additionality and emission reductions. Project developers have an incentive to approve the project’s additionality and sell as many emission reductions from it as possible. This can result in confusion, especially in a voluntary market without regulatory oversight. In the regulatory market, additionality assessments must be evaluated and approved by the carbon market regulator.
- Time and labor intensive, therefore increasing the transaction costs of a project.
- Reduces the flow of projects into the market by increasing the risk (i.e., uncertainty) faced by project developers. Project developers must anticipate subjective judgments of regulators and accept the risk that their project may not be approved.

### **Standardized Additionality Assessments and Quantification**

Standardized approaches credit reductions on the basis of general criteria and emissions factors. There are two elements to standardized offset crediting: 1) streamlining the estimation of project baselines by using standard assumptions and emissions factors; and, 2) deciding the additionality of projects using standard eligibility criteria.<sup>1</sup>

A standardized approach can minimize subjective judgment in the determination of baselines and additionality. Under a standardized approach, a carbon market regulator establishes objective, verifiable thresholds for project sectors. If projects within a sector meet or exceed the threshold, they are universally considered additional, regardless of individual project or program circumstance.

A standardized approach defines additionality as a set of eligibility criteria. Projects whose technologies meet a specific efficiency standard, emissions factor (greenhouse gas emissions per unit of output) or market penetration rate (how commonly the technology is used within its sector) are automatically considered additional.

One specific type of performance standard is a standardized technology additionality assessment. Under this approach, a regulator can publish lists of technologies or practices that are automatically deemed additional. For example, a project developer, non-profit or regulatory body could deem an industry standard for the efficiency of washing machines to be 1.6 kWh consumed per cycle. Once an industry standard is set, the performance standard creates a threshold that, if exceeded, determines a project to be additional. For example, any washing machine that performs at least 20% more efficiently than the industry standard could be deemed above and beyond the business as usual scenario and therefore additional. In this example, to ensure that a washing machine project is additional, project developers need only buy washing machines that consume less than 1.28 kWh per cycle. Project finances or history are not considered as long as the project exceeds the performance standard threshold.

When a standardized assessment is set for a particular project type, the industry standard generally serves as the baseline (i.e., the greenhouse gases that would have been emitted if the project was not implemented) for all projects in the sector. In the washing machine example, the baseline scenario of a project would be the emissions associated with using an industry-standard 1.6 kWh per cycle machine.

Project developers, non-profits, or government regulators can create performance standards and industry standards. The Voluntary Carbon Standard (VCS), the Regional Greenhouse Gas Initiative (RGGI), The EPA Climate Leaders, and the California Climate Action Registry use performance standard assessments.

#### *Advantages of standardized assessments*

- Ensures that all projects of the same type meet the same criteria for additionality, improving the fungibility of greenhouse gas offsets.

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<sup>1</sup> Broekhoff, Derik. Expanding Global Emissions Trading: Prospects for Standardized Carbon Offset Crediting. International Emissions Trading Association. November 2007. pg. 2.

- Requires little to no subjective judgment once the performance standard is set. This can increase the credibility of the offset credit generation process through greater transparency and standardization.
- Streamlines the project development process, thereby reducing transaction costs and investment risk.
- Minimizes uncertainty regarding offset project qualification and the number of offsets generated by a given project type.

*Disadvantages of standardized assessments*

- Accepts a certain amount of inaccuracy by generalizing all baselines as the industry standard.
- If the addition of carbon offset funding does not affect the distribution of sales of equipment across the range of greenhouse gas efficiency, then funding will have flowed and greenhouse gas reduction credit awarded when no real reductions occurred.
- Can limit the types of offset projects allowed in the market to only those for which performance standards are available or can be readily developed.
- Can be difficult to account for differing market and environmental conditions in various regions and regulatory systems.
- Can be difficult to properly account for leakage, defined as changes in greenhouse gas emissions outside of the project's boundaries caused by the implementation of the project (this concept is discussed more fully in the next section).

**Hybrid Additionality Assessment and Quantification**

In hybrid assessments, baseline and additionality determinations can combine elements of project-specific and standardized assessments. A range of different hybrid combinations, some favoring project-specific methodologies and others emphasizing the standardized approach, can be used. For additionality tests, for example, a standardized approach can first screen out non-additional projects and a project-specific evaluation can then be used to review a sub-set of projects. In creating baselines, a project developer can rely mostly on site-specific measurements, but supplement this data with a few sector wide generalizations; or, project developers can use mostly sector wide emissions factors supplemented with some site-specific data. The Environmental Resources Trust utilizes a hybrid approach to assess additionality.

*Advantages and disadvantages of hybrid assessments*

A hybrid approach attempts to balance the strengths and weaknesses of project-specific and standardized approaches. The advantages and disadvantages of a hybrid approach depend up on the balance struck between the different assessments types.

**Summary**

The three additionality assessments outlined above are not mutually exclusive. As the carbon market matures, more organizations are publishing sector-specific protocols for offset projects that utilize one or more of these additionality tests. These protocols walk project developers through the step-by-step process of qualifying and quantifying a greenhouse gas emission reduction project within a specific sector. Protocols are

available from regulatory bodies like the Clean Development Mechanism under the Kyoto Protocol and the Regional Greenhouse Gas Initiative. Other entities such as the California Climate Action Registry and Environmental Resources Trust have also published protocols.

To qualify a project under a protocol, project developers must meet the protocol's standards for additionality. All organizations that publish protocols use a mixture of the three additionality assessments outlined above, sometimes blending more than one test into a single protocol.

Determining additionality is an essential but imperfect process. No single assessment is the best for all potential projects. Instead, the best approach to assessing additionality depends upon the policy goals of the market or offset buyer. The Offset Quality Initiative supports the development of cost-effective, robust, and flexible additionality assessment tools that provide a standardized, transparent and rigorous framework for the qualification of greenhouse gas offset projects.

## **B.2. Other Key Offset Qualification Criteria**

### **Permanence**

Permanence is a term used to note that the emissions reductions underlying the offsets generated by certain project types can be reversed. Most often, permanence is an issue with biological and geologic sequestration. Permanence is a type of project risk. For example, forestry-based offset projects face a permanence risk: if there is a wildfire, some of the carbon sequestered in the forest will be released into the atmosphere and the offset could be negated. The market is proactively developing ways to address and mitigate the risk associated with these types of projects. These measures include reserve pools or buffer accounts and insurance, among others. Permanence should be addressed in the offset contracting process.

### **Ownership of Credits**

Emissions reductions generated by offset projects must have clear and defensible rights to ownership which must be demonstrated to the registry in which the project is registered and tracked. An offset may only be allocated, awarded or counted one time, at any given time, against the greenhouse gas emissions of a single entity. Once a seller sells an offset, he or she is no longer able to use, claim or report that emissions reduction. To prevent double counting or double selling of credits, registries employ unique serial numbers for each ton of emission reduction and track the transaction of such tons over their life to retirement at which point the serialized ton is frozen within the accounting system to prevent its further sale or use.

There is currently no single place where project developers and offset providers register and serialize carbon offsets for the voluntary market. There are a number of project registries in existence to serve the US voluntary market, such as the Chicago Climate Exchange, but many (if not most) of the carbon offsets being sold have not been registered or serialized, which makes it difficult for a consumer to know what kind of

offset project they are supporting with their purchase and if the project is real, additional and verified.

### **B.3. Key Offset Quantification Steps**

#### **Project Baseline**

A baseline is a core component of the greenhouse gas reduction quantification process and must be established in order to quantify a project's reduction of greenhouse gas levels. The baseline is intended to establish a projected emissions level in the absence of emissions reduction spurred by existence of the offset market. The difference between the business-as-usual case and the reductions achieved by the greenhouse gas reduction project is what is credited as an offset. Credible greenhouse gas emissions reductions can only be assessed if the baseline upon which the reduction is assessed is based is an accurate and realistic reflection of the business as usual emissions scenario.

#### **Leakage**

Leakage is defined as an increase in greenhouse gas emissions outside of the project's emissions boundary that occur as a result of the project activity. Monitoring and verification plans and contracts should provide the necessary mechanisms to properly account for leakage over the life of an offset project.

#### **Monitoring and Verification**

Emissions reductions from GHG offset projects must be accurately quantified and verified. Each project must have a monitoring and verification (M&V) plan specific to that particular project that defines how, when and by whom the quantification and verification will be conducted. To ensure proper quantification and verification methodologies, the M&V Plans should be written with the help of experts familiar with the specifics of a project. All emissions reductions should be verified by an independent, third party verifier. There are established standards that can and should be used to develop and implement these M&V Plans, examples include: the World Resources Institute's Greenhouse Gas Protocol for Project Accounting and the International Standards Organization 14064 and 14065 Protocols.

## **IV. Renewable Energy, Renewable Energy Certificates and Offsets**

The Offset Quality Initiative is a strong supporter of renewable energy and believes that it has a critical role to play in our fight against global climate change. We believe governments should enact stronger policies to spur additional renewable energy investments. We support the promotion of renewable energy through greenhouse gas offset programs (until there is a binding cap on emissions from the electricity sector) and mechanisms such as allowance set-asides for new capacity under an emissions cap and trade scheme, aggressive Renewable Portfolio Standard legislation, and tax credits or feed-in tariffs. We believe the carbon market can play a role in funding renewable electricity projects, but that there are several key challenges that should be addressed as the U.S. moves from a voluntary to a regulatory system.

The United States is beginning the transition from a smaller, mostly voluntary offset market to a larger, regulatory market. Many states are implementing greenhouse gas reduction policies and programs, including mandatory reporting requirements and emissions caps and most observers believe that federal climate legislation will be enacted within the next several years. It is important to structure the existing voluntary carbon markets so that the transition from the voluntary to the regulatory market occurs smoothly. While the precise structure of regulation is for the most part unknown, it is well understood that, if any regulation is passed, the power sector will be capped and required to track, report and reduce its greenhouse gas emissions. This has important considerations for the use of renewable energy and RECs as a source of greenhouse gas offsets.

The OQI's concerns regarding the use of renewable energy as emissions reductions fall into two categories:

1. Additionality
2. Ownership and Double Counting

Our conclusion is that renewable electricity can be used as a greenhouse gas offset until future mandatory emissions caps are in place, but that governments should work to implement changes to the greenhouse gas accounting systems for electricity generation that will ensure clear and unambiguous ownership and no double counting of emissions reductions. This section of the document presents specific recommendations for addressing the key challenges of offsets from indirect emissions reduction projects or programs.

## **A. Definitions, Ownership and Property Right of RECs**

A renewable energy certificate (REC) is a market-based commodity designed to facilitate transactions between buyers and sellers of renewable energy free from the constraints of the electricity grid. Over the past several years, competing definitions of Renewable Energy Certificates have been developed. Many market participants define RECs as the decoupled "environmental attributes" of renewable energy as a commodity separate and distinct from the actual electricity itself. These "environmental attributes," though not generally specified or quantified, include reduced levels of criteria and toxic air pollutant and greenhouse gas emissions. The OQI believes that there are significant drawbacks to defining RECs in this way, which are discussed in greater detail in the following sections.

The Offset Quality Initiative believes that a REC should represent "unique and exclusive proof that one megawatt hour (MWh) of electricity has been generated and contributed to the grid from a renewable resource." Renewable electricity generators, due to the current state of emissions accounting and tracking practices in the United States, do not have clear and unambiguous ownership of specific emissions reductions occurring elsewhere on the grid as a result of their generation. Moreover, the potential exists for the emission reductions from renewable energy generation on the grid to be double-counted/claimed under existing and future policy.

## **B. Double Counting and Renewable Energy**

Renewable energy generation acts to lower the direct emissions of fossil fuel generators connected to the same grid. The physical greenhouse benefit of adding renewable energy to the grid occurs from fossil fuel generators generating less power and therefore emitting less. It is very likely that future greenhouse gas regulation will require power plants to report (claim) their greenhouse gas emissions, increasing the likelihood that power plants will claim the environmental benefits of indirect projects as their own. Indirect Emissions Reductions occur when an action at one location causes a greenhouse gas emission reduction to occur at another location. As a result, there is potential for both the renewable energy generator selling the REC and the power plant experiencing the emission reduction to claim the same environmental benefit.

This double counting of emissions reduction becomes problematic when multiple parties are potentially making emissions reduction claims based on the same megawatt hour of renewable electricity added to the grid.

The OQI strongly believes that the certification of voluntary greenhouse gas offsets from grid-connected renewable energy projects will result in double counting in the near to medium term. Certifying and marketing RECs as greenhouse gas offsets is therefore a practice we believe will come under increasing scrutiny and skepticism as the U.S. climate policy landscape evolves. We believe that the renewable energy community would be better served by the establishment of a more credible greenhouse gas accounting framework for renewable power purchases that would complement, and be compatible with, any likely future greenhouse gas regulatory system for the power sector in the United States.

## **C. Additionality and Renewable Energy**

A rigorous demonstration of additionality is the basis of a credible offset. If a project fails to demonstrate additionality, then the basic promise that an offset is equivalent to an onsite reduction is violated. Due to this, rigorous procedures for determining additionality must be established and employed. Projects that fail to meet commonly accepted tests for additionality should not be eligible to sell greenhouse gas offsets.

For some types of renewable energy projects, such as those involving customer-based or distributed solar photovoltaic systems, it can be reasonably assured that projects meeting these criteria will typically be additional. For other types of renewable technologies, such as biomass and wind, the picture is not so clear. Despite the rarity of these technologies in the overall U.S. generation mix, a significant subset of wind and biomass projects would probably be implemented regardless of REC purchases because they are cost competitive with existing government support policies and without additional revenue from REC or offset credit sales. More importantly, in the case of RECs, neither rigorous nor credible additionality tests are applied when RECs are created. Currently REC marketers employ a base year and regulatory surplus additionality threshold, which alone are not an adequate demonstration of the role greenhouse gas reduction funding played in their implementation.

## V. Recommendations

The Offset Quality Initiative believes that renewable electricity can be used as a GHG offset until future greenhouse gas emissions caps are in place, but that governments should work to implement changes to the greenhouse gas accounting systems for electricity generation that will ensure clear and unambiguous ownership and no double counting of emissions reductions.

These changes would need to include:

1. A tracking system for all generators, ideally built on the existing renewable energy tracking infrastructure that would ensure that ownership claims are reported, unambiguous and transparent.
2. An oversight/enforcement entity tasked with monitoring and enforcing the transfer of emissions reduction benefits and claims.
3. A means of adjusting the average grid intensity to reflect the sale and claiming of greenhouse gas reductions through the purchase of indirect offsets in both the voluntary and regulatory markets.

### *A comprehensive tracking system for all electricity generation*

The Offset Quality Initiative proposes the use of a comprehensive, closed accounting system that tracks all generation, not just renewable. Infrastructure has been put in place to develop a credible accounting system for greenhouse gas emissions in the form of certificate tracking systems such as the Generation Attribute Tracking System (GATS) and Western Region Electricity Generation Information System (WREGIS). These systems can both prevent the double counting of RECs and provide a service to all entities by providing a credible and consistent average Scope 2 emission factor that nets out REC and indirect offset retirements. Such an approach respects the private claim by REC consumers of their zero emission electricity purchases and indirect offset purchasers of their greenhouse gas reduction, and ensures the environmental integrity of these claims. This system also provides an added incentive for further REC purchases by penalizing those that fail to support renewable energy as much as it rewards those that do by ensuring that the cause of the emissions reduction or green power generation is credited with that reduction.

We support the development of these certificate tracking systems so that the net average grid intensity can be adjusted to accurately reflect the impact of renewable energy when those projects are selling RECs or indirect offsets. New guidance will need to be given to entities in the United States so that they can accurately identify the appropriate Scope 2 emission factor to use and that allows them to unambiguously claim ownership over zero emissions electricity represented by a REC. While much of this groundwork has already been laid, more work is needed for this accounting system to work effectively in the U.S. electricity market. Measures ensuring that grid emissions factors are adjusted to reflect renewable energy sales in the voluntary market need to be developed and put into place in order for RECs to credibly participate in the voluntary greenhouse gas reduction market.

### *An oversight/enforcement entity*

The OQI recommends the establishment of a centralized oversight and enforcement agency that would be tasked with ensuring the accuracy of publicly available greenhouse gas emissions data for both the voluntary and regulatory markets.

*A means of adjusting the average grid intensity factor to reflect voluntary and regulatory purchases of indirect emissions reductions*

Scope 2 emissions footprints are most commonly calculated using average emission factors rates provided by a utility when available, or the Emissions and Generation Resource Integrated Database, or e-GRID, administered by the US Environmental Protection Agency. The e-GRID average represents the average GHG emissions from a region's power generation mix. If a single entity privately claims a REC as zero emission electricity for a MWh of its Scope 2 inventory, the average grid intensity for all other MWh's consumed should be proportionally increased.

If a consumer purchases RECs from a wind plant and uses them to make a GHG reduction claim, the zero emissions electricity claim is double counted because it is already reflected in that end users (and others connected to the grid) proportionally lower Scope 2 emissions as measured by the average grid intensity factor. This is simply an artifact of current accounting systems and is no way the fault of the renewable generators or the purveyors of RECs, but should be addressed as soon as possible. The OQI recommends that a system be established whereby the e-GRID emissions factor be adjusted to reflect the sale and transfer of greenhouse gas reductions from indirect offset projects such as renewable energy.

In the interim, we believe that a credible accounting system should be established that could accurately and effectively track RECs bought and sold in the voluntary market. An accurately adjusted average grid intensity factor should be published for those regions that Scope 2 reporters in the voluntary market could then use. This will lay important groundwork for a future regulatory accounting system that credibly tracks and conveys ownership and the emissions reduction benefit associated with the purchase of renewable energy.

## **VI. Addendum Filed by The Climate Trust and Environmental Resources Trust: A Credible Role for RECs in the Voluntary Market**

As part of the OQI position development process, member organizations have the opportunity to present additional comments that they feel are important, or clarifying positions that may not be a consensual OQI position or may be counter to the opinion of other OQI members. This alternative viewpoint is not reflective of the views of the OQI as a whole, nor of other individual OQI member organizations, but is strictly that of the identified organization(s). The Climate Trust and ERT have chosen to pursue this option to propose an alternative treatment of RECs as a decrement against an entity's scope 2 emissions for purposes of carbon neutrality claims in the voluntary market.

The Climate Trust and ERT fully endorse the OQI position above, however the following section presents the views of solely The Climate Trust and ERT, and is not reflective of the OQI's view as a group. In this section, The Climate Trust and ERT propose a recommended treatment that allows RECs to play a significant role in the voluntary carbon market. This treatment provides a large market for RECs and allows for significant growth in renewable energy to serve the voluntary market, in addition to that provided for renewable energy under future regulation and by renewable portfolio standards.

The Climate Trust and ERT believe that a REC represents unique and exclusive proof that one megawatt-hour (MWh) of electricity has been generated from a qualifying renewable resource connected to the grid. The majority of renewable energy is emissions-free electricity. One of the original purposes of RECs was to facilitate the ability of consumers to purchase this benefit of renewable energy, regardless of its availability on their local grid. We believe that RECs can be a useful tool for addressing an entity's Scope 2 electricity emissions. Many companies have established goals of becoming carbon neutral and it is reasonable and important for RECs to contribute to this goal.

Under the international greenhouse gas accounting practices as defined by the World Resources Institute/World Business Council for Sustainable Development GHG Protocol, entities report both their onsite direct emissions (Scope 1) and the indirect emissions associated with their consumption of electricity (Scope 2). Note that for Scope 2, the emissions embodied in the purchased electricity physically occur elsewhere and so are also accounted under some other entity's Scope 1 emissions.

Nearly one third of greenhouse gas emissions in the United States are a result of indirect electricity consumption, while renewable energy only accounts for a small amount of total U.S. electricity consumption. As a result, there is a very large potential market in which RECs can participate under this proposal.

RECs, as a representative of unique and exclusive proof of one MWh of electricity generated from a qualifying renewable resource, are an effective means of representing zero emissions electricity. RECs should not be used as offsets for Scope 1, Scope 2, or Scope 3 purposes, but rather can be used as an emissions tracking tool for Scope 2 by end users. This can be accounted for by multiplying by zero (to represent the zero emissions associated with its generation) the number of MWh of electricity for which RECs have been purchased and retired. The remaining MWh's should be multiplied by an adjusted average grid intensity factor. Under this accounting approach, a company could purchase RECs equal to 10% of its megawatt hours under Scope 2 and multiply those MWh's by zero. The remaining megawatt hours (in this case 90%) would then be multiplied by the average grid intensity factor to calculate its remaining Scope 2 emissions profile.

While this treatment does not solve the double counting issue, which will require a much larger coordinated effort, it allows RECs to participate in the voluntary market in a meaningful way while the accounting problems are addressed.

## **VII. Addendum Filed by Environmental Resources Trust: Ownership of Emission Reductions from Renewable Energy**

As part of the OQI position development process, member organizations have the opportunity to present additional comments that they feel are important, or clarifying positions that may not be a consensual OQI position or may be counter to the opinion of other OQI members. This alternative viewpoint is not reflective of the views of the OQI as a whole, nor of other individual OQI member organizations, but is strictly that of the identified organization(s). The Environmental Resources Trust has chosen to pursue this option to clarify our organization's views on the particular challenges associated with renewable generators creating offsets in the United States.

In ERT's view, all offset projects must demonstrate clear legal title of the environmental benefit embodied in the tradable offset. In the case of indirect emission reductions, where the reduction occurs on property or equipment owned and operated by another company, contractual assignment of ownership rights is usually required to establish clear and uncontested title.

In the case of a renewable generator claiming ownership over emission changes at a fossil generation plant owned and operated by another company, this issue is extremely problematic. Under the current legal framework in the US (i.e. the Clean Air Act), responsibility for pollution rests on the operator and owners of the emitting units. Under Title IV of the Clean Air Act, most electricity generating units are required to report to the Federal Government their annual carbon dioxide emissions as measured by a continuous emissions monitor. No matter what types of influences, incentives or behavioral changes might drive consumption of energy, the power plant reports the emissions that occur as a result of meeting that demand for energy. The power plant is responsible for compliance with air pollution targets and limits. ERT is not aware of any

case where fossil generators have agreed to surrender or transfer ownership rights to renewable generators.

In the absence of such contractual assignments, ERT does not believe that renewable generators have demonstrated clear, uncontested title. Future regulatory decisions may change this situation, and many argue that it would be equitable for renewable generators to be rewarded such offset rights. **In ERT's view, renewable energy generators must meet the same threshold for offset quality as every other project type, and until ownership of emission reductions can be demonstrated, renewable energy projects in the U.S. cannot generate offsets. Renewable energy projects in the developing world are eligible sources of greenhouse gas offsets because they fall under different legal and policy frameworks.**