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News Analysis

OFFSET PROVIDERS ASSERT INFLUENCE OVER STATE, NATIONAL GHG STRATEGIES

Companies that sell carbon offsets are increasing their influence over state and federal greenhouse gas (GHG) reduction strategies, in an effort to shape emerging regulations to ensure maximum credit trading.

The increasing role of these companies in policy development bolsters claims by many stakeholders that state and regional programs will help shape a federal cap-and-trade program designed to link with programs and offset opportunities in other countries, sources say.

These companies often sponsor projects that capture or avoid carbon and other GHGs, such as tree planting campaigns or methane controls at waste landfills, and then sell the credits that are created by the projects to other groups or entities that struggle to meet strict emission limits.

But some environmental groups and civil rights activists are continuing to fight generous offset strategies in both state programs and in pending federal legislation, calling for strict limits on the geographic boundaries of offset projects, as well tight restrictions on the degree to which offsets can count toward a facility's total compliance obligation.

Projects that produce offsets are often outside the scope of regulatory requirements that target utilities and other industrial facilities. Companies that are subject to GHG rules or caps in certain circumstances can purchase the emission-reduction credits to comply with regulatory programs. The offsets are also available for purchase by companies or entities that want to voluntarily reduce their GHG emissions, such as those that participate in the Chicago Climate Exchange (CCX), which is a membership-only, legally binding, GHG reduction and trading program.

Carbon Credit Purchases

For example, American Electric Power (AEP), one of the largest U.S. utilities, which operates in 11 eastern states, announced June 14 that it agreed to purchase 4.6 million carbon credits between 2010 and 2017 generated from capturing methane on livestock farms. AEP will purchase the offsets from an affiliate of Environmental Credit Corp. (ECC), an offset provider. One carbon credit is equal to one ton of CO₂ reduction. The agreement is part of the first large-scale livestock methane offset program established in the United States, which will capture and destroy methane from approximately 400,000 head of livestock on as many as 200 U.S. farms, according to the companies.

ECC will work with farmers to design and provide lagoon cover systems, including gas meters and flares, which reduce methane releases. ECC also will provide data monitoring, reporting, independent verification, certification and registration of the carbon credits with CCX.

ECC is part of a new group called the Carbon Offset Providers Coalition (COPC), which also includes MGM International and Blue Source, LLC. The coalition was created earlier this year and is represented by the prominent law firm Beveridge & Diamond.

COPC is becoming increasingly active in lobbying state and federal policy makers who are devising GHG cap-and-trade programs. An ECC source says the company and COPC are pushing these officials to include few if any limits to offset uses in their evolving strategies.

For example, in California, COPC representatives at Beveridge & Diamond were pleased to see that a draft report released earlier this month by an expert panel recommends flexible use of offsets, including out-of-state offset projects, as well as potential future expansion to offsets created in other countries. The firm, on behalf of COPC, submitted a 12-page letter in April to the expert panel with detailed recommendations about how offsets should be treated. Many of those recommendations were followed by the state advisory group. The bulk of the report is expected to become the California Air Resources Board's official proposal for a cap-and-trade program in the state.

"One of the issues is, if we make a small, regional system and it is constrained in different ways, then linkage with other systems that are more global is very difficult," says an ECC source. "We're trying to argue for some

foresight, and say, ‘recognize the global economy is coming for carbon in most of the world Make rules link up to the global economy.’ So everything we’re commenting on is basically heading in that direction.”

Congressional Proposals

By influencing the makeup of California’s program, COPC is potentially shaping future congressional proposals for a national cap-and-trade program, because California is considered a model, sources have said.

However, the offset providers are less enthusiastic about offset proposals being considered by the Northeast states’ Regional Greenhouse Gas Initiative (RGGI) and legislative proposals pending in Congress.

“The key thing is to figure out a way to make sure offsets are possible under legislation, and lot of the legislation we’ve seen has made offsets very constrained,” the source says. “People are [limiting it] based on geography, the percentage of offsets allowed, and have tried to restrain the types of projects.”

For example, pending legislation (S. 309) sponsored by Sens. Bernie Sanders (I-VT) and Barbara Boxer (D-CA) proposes no use of international offsets, and strictly limits the use of domestic offsets. Another proposal (S. 485) by Sens. John Kerry (D-MA) and Olympia Snowe (R-ME) is similarly restrictive. While a proposal (S. 317) by Sens. Dianne Feinstein (D-CA) and Thomas Carper (D-DE) is less restrictive of offset use, it still limits use, with a 25 percent cap on international offset use. “Discussion draft” legislation by Sen. Jeff Bingaman (D-NM) also would strictly limit the use of offsets, while S. 280 by Sens. Joe Lieberman (I-CT) and John McCain (R-AZ) proposes a 30 percent limit on domestic and international offsets.

COPC representatives are continuing to meet with key lawmakers to relax these proposals, sources say.

As for RGGI, offset providers are lobbying state officials to ease proposed rules governing verification, accounting and bookkeeping of offsets, arguing that they must have some standardization of provisions implemented under other cap-and-trade programs abroad. “It has to be a standardized approach, rather than a case-by-case offset project approach,” the ECC source says. The current RGGI proposals “may set too tight of restrictions on farmers, for example. Projects are made ineligible because the cost of accounting is just too high,” the source says.

EU Offsets

In contrast, the source says, under the European Union’s offset program, called the Clean Development Mechanism, there is widespread use and acceptance of a small-scale project protocol, which is much less restrictive and allows for widespread project use and easier verification.

Part of the reason U.S. state and federal policy makers are apprehensive about offset use is because of concerns that have been raised by environmental groups and civil rights activists. These critics have said current certification and verification methods to ensure offset reductions are real, additional, quantifiable and able to meet other criteria can be flawed and do not provide enough assurance to regulators and the public that GHG emissions are actually being reduced to the levels claimed by the offsets.

A coalition of environmental groups last year wrote a letter urging all public agencies to avoid joining the CCX, based on concerns that the offset provisions in the program failed to ensure emission reductions are additional and permanent.

But the EEC source defends the CCX protocols and the system’s verification requirements, noting that the exchange has an offset committee to review offset projects, as well as a review by the National Association of Securities Dealers. Independent verifiers also review projects, the source says. “I have never seen anyone with actual proof that the [CCX] verification process is flawed,” the source adds. “I think it’s very unfair to jump to snap decisions like that without background.”