



March 12, 2008

Re: Comments of the Coalition for Emission Reduction Projects on the Lieberman-Warner Climate Security Act of 2007 (S. 2191)

Dear Senator:

On behalf of the Coalition for Emission Reduction Projects ("CERP" or the "Coalition"), we are writing you to emphasize the importance of including workable provisions for emission reduction "offsets" into any cap-and-trade legislation, including S. 2191, "The Lieberman-Warner Climate Security Act of 2007," which was reported out of the Senate Environment and Public Works Committee on December 5, 2007. We commend your efforts and leadership in contributing to the development of sound Federal climate change policies.

About CERP. The Coalition for Emission Reduction Projects is a newly-formed organization. Our aim is to educate policy-makers about the key role that offsets can play in a U.S. cap-and-trade program, such as that proposed by S. 2191. Ours is a unique group, which brings together leading companies in the energy, financial, and offset provider sectors.

The Coalition's members have diverse interests and views on climate change policy. However, CERP is united around the following principles: (1) the United States needs a reasonable and well-designed Federal GHG regulatory program; (2) any such program should be market-based in its approach; and (3) any such program should allow entities covered by the emissions cap ("covered entities") to meet their requirements through the use of offset projects. For more information about the CERP, see www.uscERP.org.

We appreciate that S. 2191 recognizes the importance of offsets, though we believe there are a number of areas where the offset provisions in the bill could be improved. In this letter, we provide some general information about the role of offsets in cap-and-trade legislation. We would welcome the opportunity to meet with you to share our more specific recommendations regarding S. 2191.

What are Offsets?

To address global climate change, a US cap-and-trade program will need to encourage efforts to reduce greenhouse gas (GHG) emissions from the widest range of potential sources – and will need to do so at the lowest possible cost. Allowing regulated companies to use certain kinds of emission reduction projects¹ as “offsets” in the cap-and-trade program is a key element for achieving these objectives.

There are numerous sources of greenhouse gas (GHG) emissions throughout the United States and the world. A well-designed cap-and-trade program can reach a great proportion of those sources – but not all.

Some sources have emissions that are too small or too difficult to measure to lend themselves to effective regulation under a cap-and-trade program or under “command-and-control” regulation. These types of sources may include farms, forests, landfills, coal mines, and sources outside the United States.

Yet, such sources *still* can be brought into a market-based US cap-and-trade program – by providing companies regulated under the emissions cap with the ability to use reductions from certified projects at these sources as “offsets” to meet their allowance submission obligations. In other words, these projects allow emissions “inside” the capped system to be offset with reductions “outside” the capped system.

By allowing regulated companies to draw from a broader pool of opportunities for emission reductions, offsets make it possible for a cap-and-trade program to meet the *same* overall annual cap with the same environmental benefits but *at far lower cost*.

A Two-Step Process. To be clear, we are not talking about the “voluntary” offset market. Rather, our focus is on integrating offsets into a *regulatory* program – in which projects must meet specified standards and undergo review by a regulatory agency.

A regulatory offset program typically involves two steps. First, an offset project developer will submit a project proposal to the designated agency, which will determine whether the project is eligible to earn offset allowances or credits. Then, if it is deemed eligible, the project can earn offset allowances – but only *after* it has achieved reductions. This is typically determined on annual basis. At that point, the project developer can sell the offset allowances to a company that is subject to the emissions cap.

Key Approval Criteria. To ensure that an offset project generates real emission reductions, it should meet certain criteria. Specifically, it should achieve emission reductions *additional* to those that would have occurred without the project; projects should not receive credit

¹ References to “emission reductions” and “emission reduction projects” also refer to projects that sequester, avoid, or destroy emissions.

for reductions that would have happened anyway.² Other commonly recognized criteria for offset project reductions are that they must be permanent, independently verified, enforceable and measurable.

Achieving a Balance. An offset program should be designed to carefully balance environmental integrity and the need for administrative efficiency required to create a healthy offset market. A broad range of program design, administration and oversight options are available to effectively strike that balance within a regulatory offset program.

Benefits of Emission Reduction Projects as Offsets

- ***Cost Containment.*** Allowing use of emission reduction projects as offsets can dramatically reduce the costs of meeting an emissions cap. Studies by both the Environmental Protection Agency (EPA) and the Department of Energy's Energy Information Administration (EIA) of the McCain-Lieberman bill have confirmed this. In particular, EPA found that if regulated companies have no ability to use offsets, allowance prices are 2-4 times higher than a scenario in which they have full flexibility to use offsets. And the EIA found that preventing companies from using international offset projects for compliance would raise allowance prices by 150-200%.
- ***Time for Technology Development.*** Offsets can form a bridge to future technologies. EPA and EIA studies show that achieving deep reductions in US GHG emissions will not occur until there is widespread deployment of carbon capture and sequestration, nuclear power, and possible break-through clean energy technologies – which will not occur for several years. Offsets are available *today*, thereby offering an effective path to reducing US emissions in the near term.
- ***Innovation and Action in Unregulated Sectors.*** Offsets can engage sectors that otherwise would go unreached by a market-based program, thereby spurring innovation in abatement technology and practices throughout the economy.
- ***Benefits to Communities.*** Emission reduction projects outside the emissions cap can provide multiple additional benefits to communities, including jobs, technology, and reduced air pollution.
- ***International Engagement.*** Climate change is a global problem and requires actions from all countries. Allowing use of offsets from other countries, particularly in the developing world, provides one means for the United States to engage with the world on this issue. Offsets can bring American technology and know-how to other countries.

² There are different ways of measuring "additionality." The World Resources Institute has identified two basic approaches: (1) a project-specific approach, in which reductions achieved by the project are compared to a project-specific "business-as-usual" baseline scenario; and (2) a benchmark or standards approach, in which the project's emissions rate or reductions are compared to a benchmark or standard for other projects of the same type. See World Resources Institute, The GHG Protocol: The GHG Protocol for Project Accounting, available at http://www.ghgprotocol.org/files/ghg_project_protocol.pdf.

The Coalition appreciates your willingness to engage with the general public on the development of climate change legislation for the United States. We look forward to working with you on this important subject. Please do not hesitate to call on us to provide further information. Our contact point for such inquiries is Tom Roberts and Kyle Danish of the law firm of Van Ness Feldman. They may be reached at (202) 298-1800 or tcr@vnf.com or kwd@vnf.com.

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Coalition for Emission Reduction Projects

American Electric Power

Blue Source

Deutsche Bank

Dominion Resources

Econergy

EcoSecurities

El Paso Corporation

Environmental Credit Corp

Equator Environmental

3C Group

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MGM International

Stark Investments