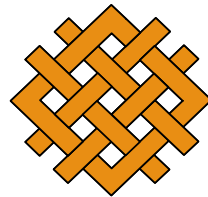




Emerging U.S. Offsets Program Designs



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Key Points

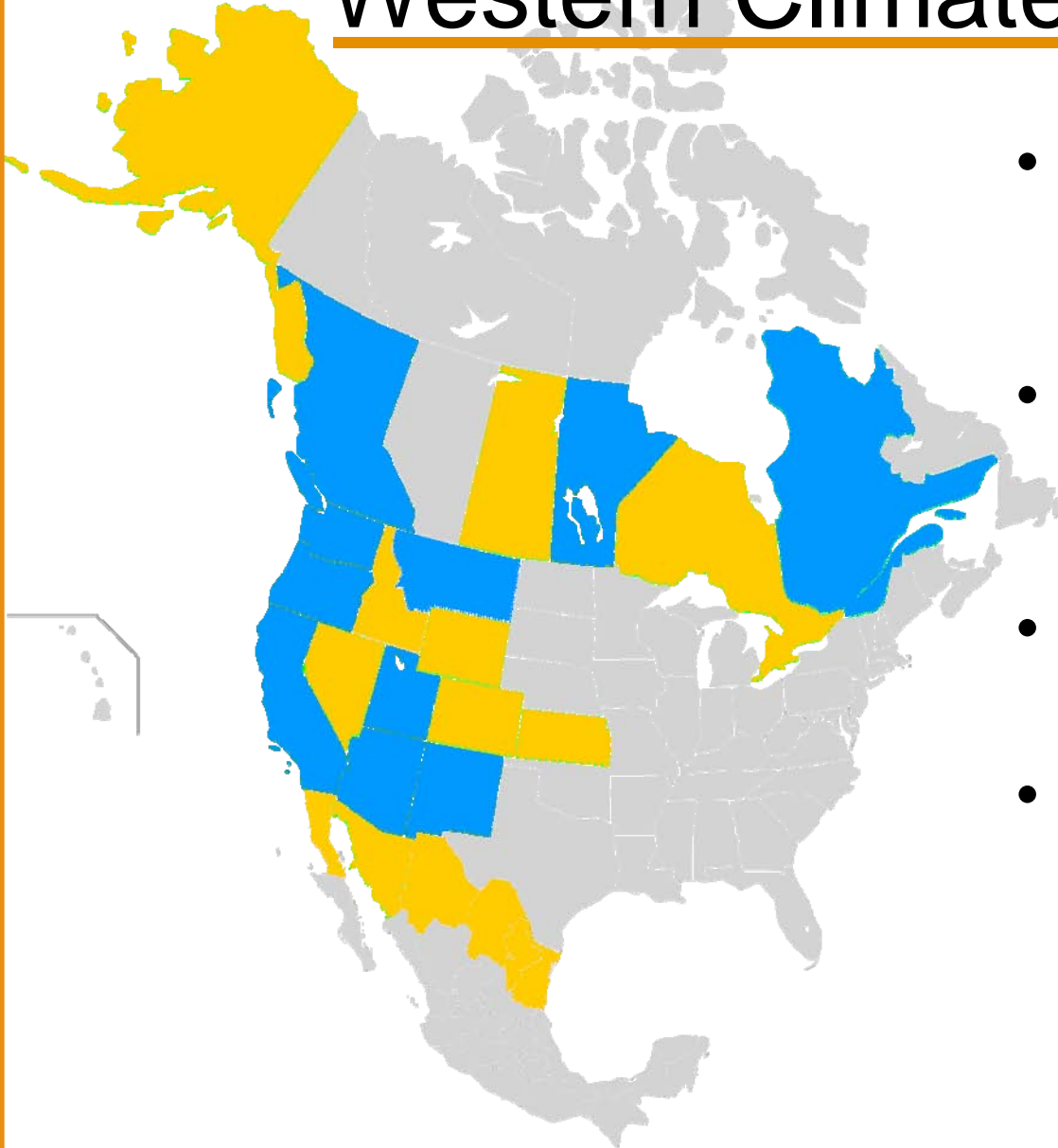
- Update on Emerging Cap-and-Trade Designs: WCI and MGA
- The Regional Greenhouse Gas Initiative's Offsets Component
 - The Positive List Approach
 - Limits on Offsets Use
 - Offsets as a “safety valve”



Emerging Cap-and-Trade Designs

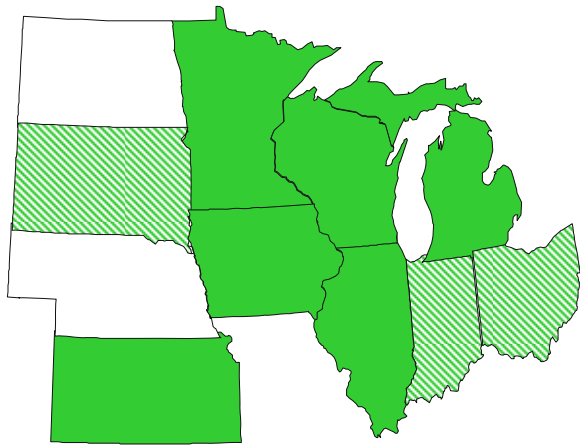


Western Climate Initiative



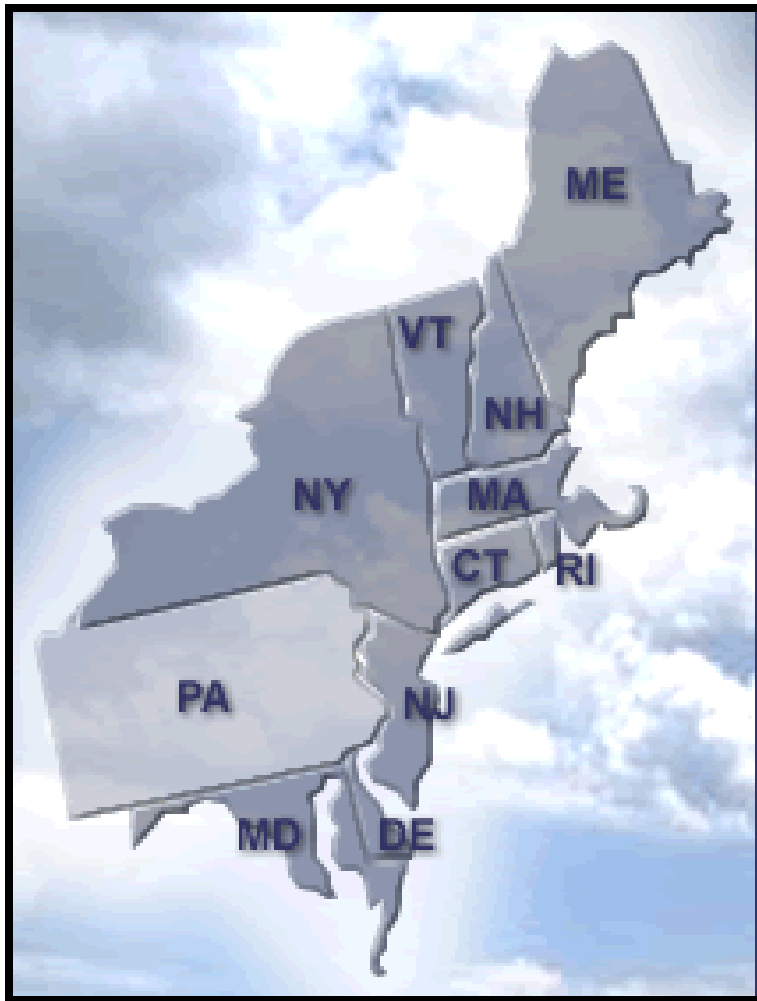
- *7 States, plus British Columbia, Manitoba and Quebec*
- *6 Observer States, 2 Observing provinces, and 6 Mexican observers*
- *Reduction Goal: 15% below 2005 levels by 2020*
- *Goal is to have a proposed program design in August*

Midwest GHG Reduction Accord



- Six States, plus Manitoba
- Observers South Dakota, Indiana, Ohio, and Ontario
- Jointly Develop Regional Cap-and-Trade Program
- Goal is to reach agreement on program design by November 2008

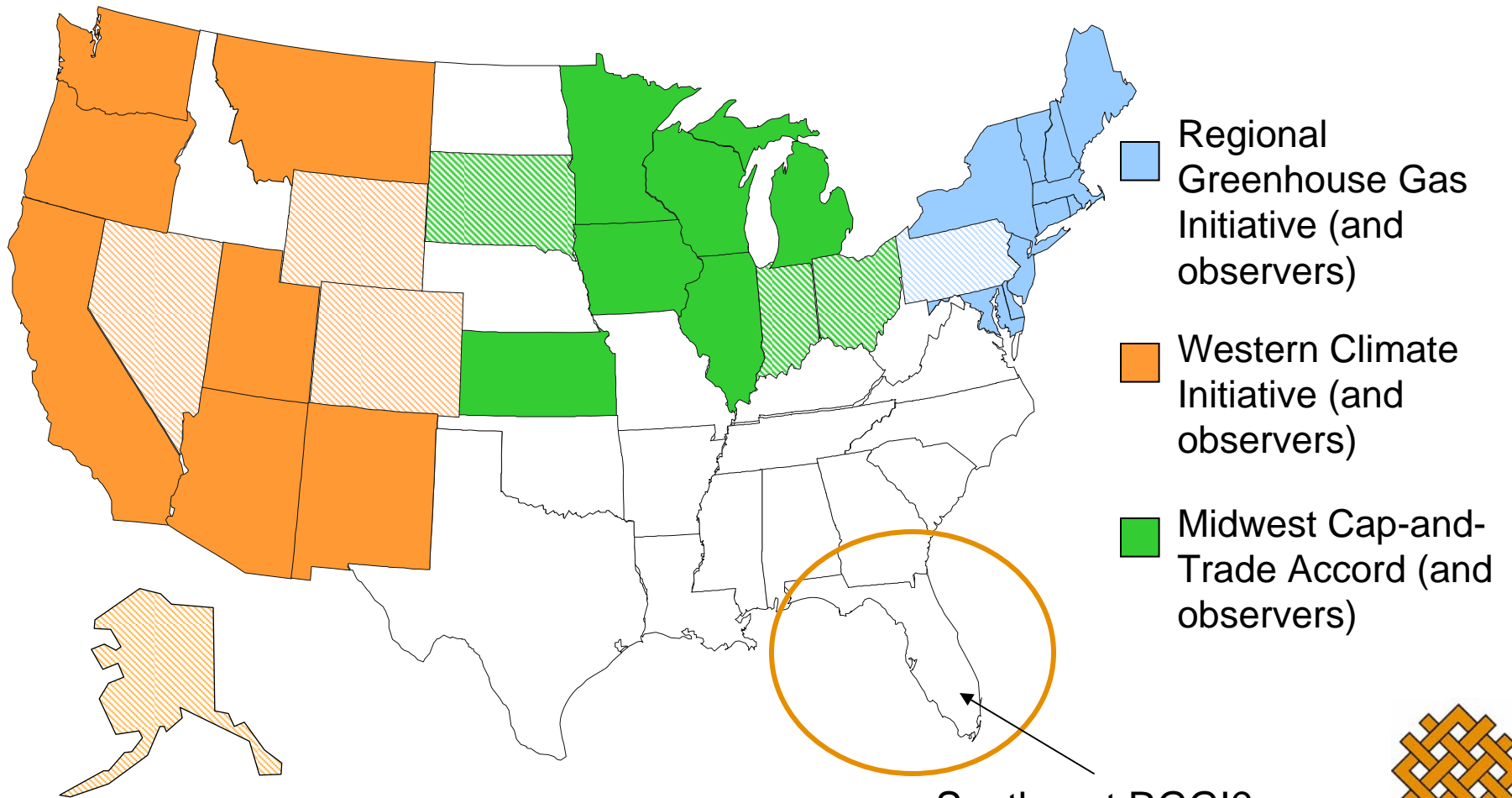
NE Regional Greenhouse Gas Initiative



- 10 States
- Scope: Power Plants Only
- Emissions source-based like EU ETS
- Program's first compliance period is January 2009

Regional Cap-and-Trade Efforts

30 States: 23 Active Participants; 7 Observers



Southeast RGGI?



RGGI Offsets Component



RGGI Offsets

- Offsets—5 Initial Types with Clear Requirements:
 - Natural Gas, Propane, Heating Oil Efficiency;
 - Land to Forest;
 - Landfill Gas Capture & Combustion;
 - Methane Capture from Animal Operations; &
 - SF₆ Leak Prevention.
 - Add additional types over time as appropriate.
- Quantitative Limit on Offsets: The RGGI “Offsets Valve”
 - Initial 3.3% limit on offset use
 - \$7 trigger increases to 5.0%
 - \$10 trigger increases to 10%
- Geography: Initially inside the United States; but recognition of CDM Offset Credits above \$10



The Positive List Approach

- Objectives:
 - Minimize administrative burden for states
 - Identify list of approvable offset projects by type; and
 - Establish clear requirements up front.
- Allows flexibility in applying key offset criteria:
 - Real, Surplus/Additional, Verifiable, Permanent & Enforceable (RSVP&E)
 - Difficult concepts like additionality and permanence can be applied differently depending on the offset types
- Allows selection of offset types only as program administrators (and stakeholders) are comfortable
- Alternative to quasi-judicial board approach, which would have been costly to administer, if not impossible for a group of states



The Initial Positive List

- Offsets—5 Initial Types with Clear Requirements:
 - Natural Gas, Propane, Heating Oil Efficiency;
 - Land to Forest;
 - Landfill Gas Capture & Combustion;
 - Methane Capture from Animal Operations; &
 - SF₆ Leak Prevention.
 - Add additional types over time as appropriate.
- New types can be added, but require a rulemaking procedure in the RGGI states



Quantitative Limit on Offsets

- Quantitative Limit on Offsets: Initial 3.3% limit on offset use

QuickTime™ and a
decompressor
are needed to see this picture.



Geographical Limit on Offsets

- Initially, offsets may come from anywhere in the United States;
- Offsets from non-RGGI states require that a state agency in the non-RGGI state enter into an MOU with RGGI and agree to carry out certain oversight functions.
- Not clear how this MOU element will be carried out.



Offsets as a “Safety Valve”

- Initial 3.3% limit on offset use will increase if:
 - \$7 trigger increases to 5.0%
 - \$10 trigger increases to 10%
- Initial geographical limit on offsets to within the United States expands to include CDM/EU ETS allowances after \$10 trigger
- Trigger “resets” in the next compliance period

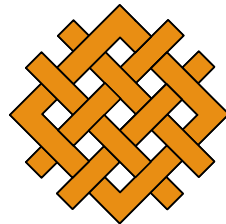


Reflections

- Offset price triggers are perhaps the most criticized element of RGGI design
- Supply of offsets may serve as de facto limit on offsets use, particularly where the positive list of eligible offsets is short and rigorous in its requirements.
- Addition of offset types will be cumbersome, leading to suggestions for a “hybrid” approach that would allow developers to propose new types in a formal process.



Questions?



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