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# Climate Change Legislation: Congress Should Allow the Widespread Use of Offsets for Emissions Reductions

Congress is now considering federal legislation to reduce carbon dioxide (CO<sub>2</sub>) and other greenhouse gas (GHG) emissions. It is critical that any climate change legislation provides for the widespread use of domestic and international offsets by electric companies.

“Offsets” are projects that reduce, avoid, or sequester GHG emissions. Companies undertake these projects to “offset” or neutralize their own emissions. A company also could purchase the emissions reductions from an offsets project. For facilities covered under a U.S. mandatory emissions-reduction cap-and-trade program, these projects could include activities such as tree planting programs, methane-reduction projects, or similar actions overseas. Offsets activities offer electric companies flexibility in determining the most cost-effective GHG-reduction measures for their businesses and customers. Therefore, climate change legislation should not limit the types, quantity, or geographic location of offsets that companies are able to use to meet a GHG mandate.

## Understanding GHG Offsets

Unlike other air emissions, GHG emissions do not have localized impacts, but rather are dispersed throughout the atmosphere and affect the climate of the entire planet. Because the effects of climate change are spread throughout the globe, there are no local “hot spots” attributable to GHGs. Furthermore, the impact on the atmosphere (and consequently the planet) is the same whether GHG emissions are reduced, avoided, or sequestered in the United States or in other countries. Legislation should not differentiate between domestic or international offsets.

Since 1994, electric companies have been engaged in a wide variety of offsets activities to reduce, avoid, and sequester GHG emissions. Examples of these activities include:

- **Biologic sequestration:** Trees and plants have the ability to capture CO<sub>2</sub> in the atmosphere and store it in their stems, roots, and soil. Electric companies undertake many domestic and international activities to sequester CO<sub>2</sub> emissions through reforestation and forest preservation. Examples of industry-wide initiatives in this area include the UtiliTree Carbon Company and the PowerTree Carbon Company, which together involve more than 50 power generators that have invested nearly \$7 million in 15 tree-planting projects and two forest management efforts since 1995.
- **Utilization of coal combustion byproducts (CCBs):** CCBs, including fly ash and bottom ash, are the by-products of coal combustion in coal-fueled power plants. Electric companies often recycle CCBs, which have many useful applications that help reduce CO<sub>2</sub> emissions. For example, replacing cement with fly ash in concrete helps reduce the energy consumption and CO<sub>2</sub> emissions of cement production.
- **Reducing non-CO<sub>2</sub> GHGs:** Methane is another GHG emission that electric companies work to reduce. Electric companies engage in numerous projects to capture methane emissions from natural gas systems, landfills, and coal mines. The results have been substantial. For example, under the U.S. Environmental Protection Agency’s voluntary methane partnership programs, total U.S. methane emissions in 2005 were more than 11 percent lower than 1990 levels.

## Flexibility Is Key to Making Significant Reductions in GHG Emissions

Electric companies often may find that purchasing offsets credits is a less expensive or more cost-effective option for reducing GHGs, which ultimately benefits their customers. Offsets activities also provide significant geographic, economic, and operational flexibility for electric companies. This flexibility is critical for the electric power industry, as it will help to lower compliance costs while significantly reducing GHG emissions. Congress should ensure that climate change legislation allows companies to choose the most cost-effective options to reduce, avoid, or sequester GHG emissions. Establishing a robust offsets program will help to reduce the costs of a GHG-reduction program to consumers.

## Legitimate Concerns with Offsets Can Be Addressed

Several concerns have arisen about the use of offsets, in part because there are no federal guidelines or requirements for what constitutes an offset or how it is to be measured. In addition, some offsets vendors have yet to implement projects designed to produce the offsets (*i.e.*, tree planting, etc.) that they have sold to individuals or companies. There also are concerns about the availability and validity of international offsets, particularly whether such projects should be credited or recognized, since data from some developing countries may not be available or perceived as credible. Similarly, there are concerns about the legitimacy of some of the credits generated under the clean development mechanism.<sup>1</sup>

As Congress develops climate change legislation, it can address concerns about the validity of offsets projects by including clear rules for monitoring, measurement, appropriate third-party verification, and regulatory oversight, and by establishing a standardized registry to track offsets. Through clear standards, the environmental objective of a climate change program can be maintained, while allowing offsets to help reduce the compliance costs of the program.

However, while it is important to ensure that offsets projects result in real, measurable, and verifiable reductions, overly restrictive quantitative and qualitative limitations can significantly limit the effectiveness of offsets as a cost-containment tool. Quantitative restrictions—such as limiting the types of projects that qualify, limiting the quantity of offsets that can be used for compliance, or limiting the overall quantity of offset projects that can be developed—reduce the amount of offsets available or the use of certain offsets projects. Qualitative restrictions—such as applying overly restrictive assumptions in developing regulations for the offsets program or allowing the program administrator to change the eligibility or crediting of previously approved projects—affect the availability and price of offsets.

Congress can take important steps to help reduce the costs of climate policy for all electricity consumers, while also protecting the environment. Including strong cost-containment measures, such as the widespread use of domestic and international offsets, will help protect electricity consumers and the economy.

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<sup>1</sup> The clean development mechanism (CDM) is a market mechanism created under the Kyoto Protocol that allows developed countries to undertake GHG-reduction projects in developing countries and to use the credits from those projects toward meeting their reduction targets under the Protocol.

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