

The Climate Trust Comments on the Proposed “Local Government Operations Protocol”

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Introduction

Thank you for providing The Climate Trust with the opportunity to submit comments regarding the proposed reporting framework of the Local Government Operations Protocol (“Protocol”). We commend the California Climate Action Registry, the California Air Resource Board and ICLEI for their leadership in greenhouse gas accounting.

The Climate Trust is a non-profit organization whose mission is to promote climate change solutions by providing high-quality greenhouse gas offsets and advancing sound offset policy. The Climate Trust was created in response to the United States’ first regulation of greenhouse gases (GHG) under the Oregon Carbon Dioxide Standard. The Climate Trust solicits, negotiates, and contracts to purchase offsets on behalf of its funders, which include regulated power plants, businesses and individuals. Since its founding in 1997, The Climate Trust has directed \$8.8 million in funding into 16 greenhouse gas offset projects that are expected to offset close to 2.6 million metric tons of carbon dioxide. The Climate Trust is also a founding member of the Offset Quality Initiative, a consortium of non-profit organizations that promotes the effective incorporation of high quality greenhouse gas offsets into emerging state, regional and national climate policy.

These comments focus specifically on the treatment of greenhouse gas (GHG) offsets under the proposed Protocol. They provide a number of recommended changes to the Protocol which will allow it to contribute to the promotion and advancement of a credible, transparent and robust GHG offset accounting framework.

Reporting Requirements of Section 13.1.2.4 – Page 113

These comments address the proposed greenhouse gas reporting requirements set forth in Section 13.1.2.4 (“Informational Items”) under the title of “Carbon offsets purchased/sold.” The draft protocol reads,

Local governments should account for and report all carbon offsets which they purchase and retire. These offsets may not be deducted from Scope 1 or Scope 2 emissions due to the fact that a complete accounting framework which accurately and credibly tracks the ownership and retirement of these credits has not yet been established. Local governments should also report any offsets that they sell as part of a climate mitigation project. (pg. 113)

Recommendation: Adjusting GHG Footprints to Reflect Offset Transactions

The Climate Trust strongly advocates that reporting entities be required to add any offsets they sell from climate mitigation projects into their Scope 1 or Scope 2 emissions. Since the protocol does not require reporting entities to adjust for GHG offsets sold, the current draft of the Protocol will not allow buyers of GHG offsets purchased from local governments to establish unambiguous ownership over the emission reductions they purchase.

A high quality offset credit must convey clear and uncontested title to the emission reductions it represents through contractual assignment and/or government recognition of ownership rights. The transfer of ownership of emission reductions conveyed by offset credits must be unambiguous and documented. Once sold, the original seller of the offset credit (this can be a project developer, broker, or institution) must cede all rights to claim future credit for the same reductions in order to avoid double counting of emission reduction benefits. Although the Protocol does require reporting entities to document any offsets sold, it does not require cities to adjust their Scope 1 or Scope 2 emission inventories to reflect these transactions. By allowing cities to claim emission reductions that have been sold as offset credit, those using the Protocol could potentially double-count any offsets they sell.

Dual Footprint Reporting Proposal

The Climate Trust recommends that the Protocol require reporting entities who are buyers and/or sellers of GHG offsets to report two separate footprints: a physical GHG emission footprint and a contractual GHG emission footprint.

1. The *Physical GHG emission footprint* includes all GHG emissions covered by the reporting requirements of the Protocol, without any adjustment for GHG offsets purchased or sold.
2. The *Contractual GHG emission footprint* adjusts the physical GHG emission footprint to reflect any offsets purchased and/or sold.

Summary of Proposed Dual Footprint Reporting System

Physical GHG Footprint	Contractual GHG Footprint
All emissions covered by the Protocol	All emissions covered by the Protocol
	+
	Total tons of CO ₂ e offsets sold
	-
	Total tons of CO ₂ e offsets purchased and retired in an approved registry or database on reporter's behalf

Adding GHG Emission Reductions Sold

After compiling a complete physical GHG footprint, reporting entities *must* add any GHG offsets sold from offset projects within the Protocol's reporting boundary into their contractual GHG footprint in order to protect the integrity of the offset instrument and to avoid the potential double counting of emission reduction benefits.

Once a reporting entity has transferred ownership rights of emission reductions occurring within its reporting boundaries, that reporting entity cedes all rights to make claims relative to that emission reduction. Because the physical emission reduction occurs within the footprint boundary of the reporting entity, the emission reduction credit that was transferred with the sale of the offset credit must be added to the footprint of the offset seller in order to avoid the double counting or claiming of the emission reduction credit.

For example, "City A" sells 100 tons of offsets to "Offsets-R-Us" after it implements a steam plant retrofit that reduces the amount of coal consumed for its onsite steam generation facility. Offsets-R-Us then sells those offset credits to Corporation Z in another state, which retires them to reduce its GHG footprint. Corporation Z, as the offset purchaser, has legal rights to the emission reductions embodied in the GHG offset credit it purchased from Offsets-R-Us.

Let's say City A has a physical footprint of 10,000 tons prior to this project. When City A undertakes its GHG footprint accounting process the following year, the lower emissions from the steam plant will be registered and recorded as a reduction in its Scope 1 GHG footprint, because that is where the physical emission reduction occurred. The resulting physical footprint after project implementation would be 9,900 tons. City A cannot, however, claim that it has made a reduction in GHG

emissions because the rights to those emission reduction benefits have been legally sold to Corporation Z. Therefore, City A should be required by the Protocol to add the 100 tons of offsets sold to the physical footprint of 9,900 tons. After doing so, the contractual footprint of City A remains 10,000 tons.

In order for GHG offset credits to be a credible commodity, clear accounting standards must be developed and implemented that accurately reflect transactions that take place. To do this, we recommend a dual footprint accounting standard that will ensure offsets purchased and sold are properly reflected and credited. The dual footprint accounting standard will also ensure the greatest transparency in the marketplace by making clear where and how emission reduction and footprint accounting are taking place.

Subtracting GHG Emission Reductions Purchased

After compiling a complete physical GHG footprint, regulated entities should be able to subtract any GHG offsets purchased from providers which are approved by the California Climate Action Registry, California Air Resources Board and ICLEI. The Climate Trust recommends that the following types of offset credits, at a minimum, be allowed for voluntary footprint adjustments:

- **regulatory grade offsets:** those approved by a regulatory regime such as the Regional Greenhouse Gas Initiative, The Clean Development Mechanism, The Climate Trust and any other regulatory bodies approved by the California Climate Action Registry; and,
- **offsets sourced from a credible voluntary registry:** including the Environmental Resources Trust Greenhouse Gas Registry, the Climate Action Reserve, and any registry approved by the Voluntary Carbon Standard; and,
- **other offsets deemed credible by the California Climate Action Registry.**

Conclusions

The inclusion of both physical and contractual footprints in the Protocol will ensure that emission reductions that occur both inside and outside of reporting entities operations are accurately accounted for and tracked over time. Accounting for contractual emission reductions purchased and sold is of paramount importance to a robust and comprehensive GHG accounting system. The contractual GHG emission footprint prepares the framework for carbon markets to accurately track and account for credits. The Climate Trust therefore recommends the Protocol adopt a dual footprint reporting framework.