

Overview of the Performance Standard Approach for Offsets

**Breakout Session: Road-testing Draft
Climate Leaders Offsets Methodologies**

Climate Leaders Partners' Meeting

January 19, 2006

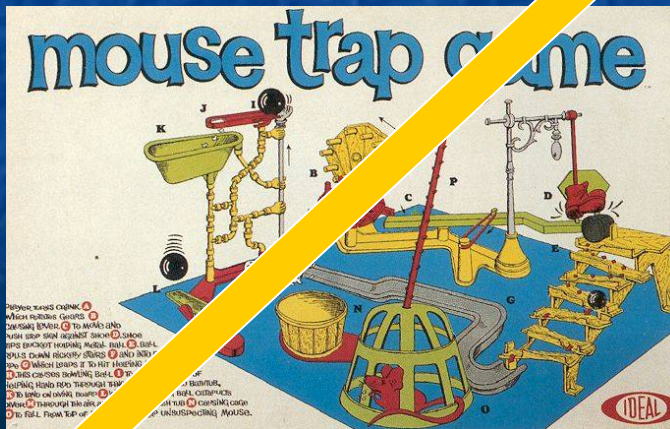


Offsets and Climate Leaders Goals

- Partners report their on-site direct emissions as well as indirect emissions from electricity use
- In addition, Climate Leaders Partners can broaden their management scope to include offset investments (including sequestration, energy efficiency, and renewable energy)
 - offsets are reductions of direct or indirect emissions (removals) that occur outside of the boundaries of the reporting company
 - offsets result from investing in projects that result in verifiable emission reductions or removals
 - investment in offsets may be more cost-effective than onsite actions
 - confirming environmental additionality and regulatory surplus for offset activities is key
 - delineation of reductions must be done with a robust, valid and quantifiable accounting system

Objectives of an Offset Program

- 1) To ensure that emission reductions from offsets are real, measurable and long term
- 2) To provide sufficient, detailed guidance to ensure credibility and certainty in both directions
- 3) To reduce the complexity, cost and subjectivity of project design and review



Quantifying Reductions from Offsets: The Performance Standard Approach

Objective: Develop a performance-based approach that has environmental integrity, program credibility, transparency, increases certainty, is cost-effective and technically robust, and advances technology.

Fundamentals of Climate Leaders' Performance Standard Approach:

- Top-down, standardized methodology
 - Set appropriate metrics for additionality, baseline, and monitoring options
- "Additionality" based on an analysis of a relevant sector in a specific spatial area
 - Project performance must be significantly better than average compared to similar recently undertaken or planned activities in relevant geographic area
 - Data from historic, planned or projected activities
 - Minimize accepting a project that is not additional or rejecting a project that is additional
- Performance standard is specific to project type; comprised of performance threshold and baseline
- Continuous performance improvements -changes in regulations, market trends, and technology developments are reflected in updates.

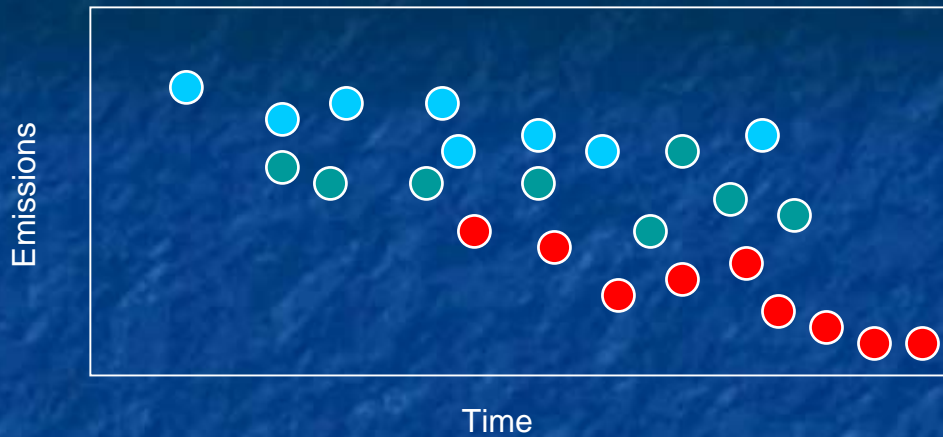
Performance Standard Steps

1. Identify the Project
2. Determine Regulatory Eligibility
 - Ensure that project is not being undertaken to come into compliance with Federal, State and/or local regulations
3. Define Project Boundary
 - The physical, GHG accounting (e.g., gases), and temporal scope that describes the emissions sources/sinks to be included in the assessment of emission reductions

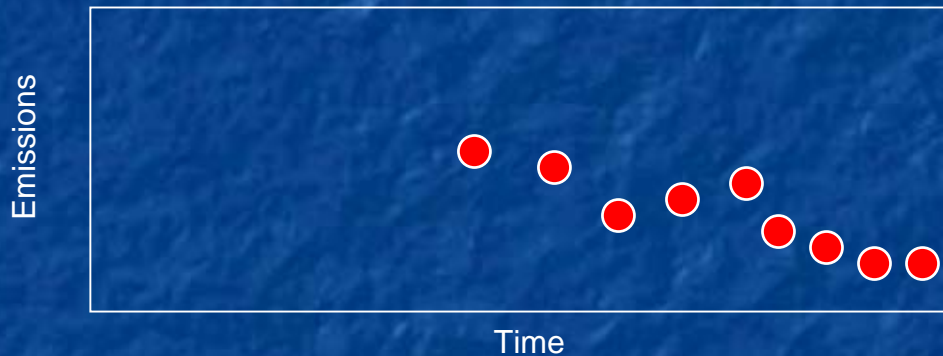
Performance Standard Steps (2)

4. Develop the Performance Threshold and Emissions Baseline
 - Define the emissions rate/absolute level of emissions/ technology or practice that best represents what would have happened absent the project
 - Performance threshold represents a level of performance that is significantly better than average compared to similar recently undertaken or planned activities in relevant spatial area
 - Once determined that proposed project performs better than threshold, develop baseline against which emission reductions are quantified.
5. Estimate Project Emission Reductions
6. Implement Project, Monitor Emissions
7. Quantify Project GHG Emissions Savings

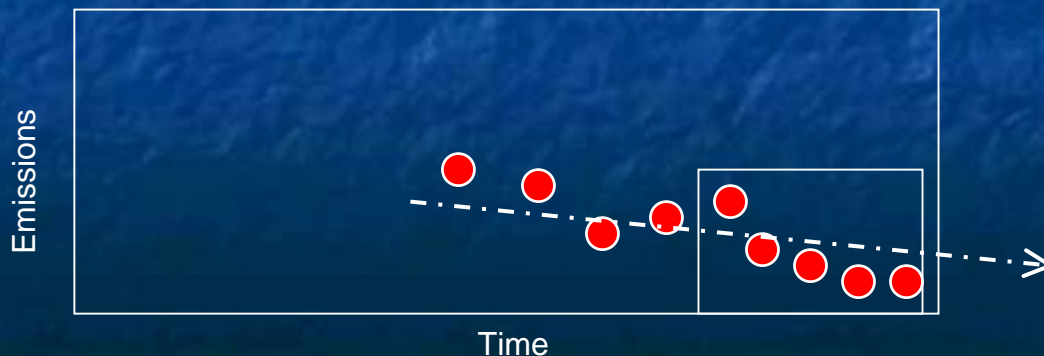
Illustration of Development of a Performance Threshold



- = Region one data
- = Region two data
- = Region three data



Decision that data differ regionally; only data from Region three are used.



Data are examined for trends; improving trend so only recent data are used – surrogate for future trend

Status of Methodologies

- EPA is completing draft methodologies for nine project types
- Designed methodology for a common project example. Where applicable, existing performance standard could be applied directly to CL Partner's proposed project
- Where Partner believes existing performance standard does not reflect their project circumstances, may develop own performance standard, in cooperation with EPA, based on the outlined approach.

Performance Standards Developed to Date	
Cement Production	Iron and Steel
Transportation	Coal Mine Methane
Manure Management	SF ₆ Equipment Replacement/Repair
Boilers	Landfills
Afforestation	

Overview of Break-out Session

- Presentations on road-testing
 - Working with SC Johnson and Interface, applied offsets methodology to a boiler and landfill project, respectively.
 - Feedback/reactions

- Discussion
 - Is your company interested in pursuing offsets to meet their Climate Leaders' goal or for other purposes?
 - Are there additional project types for which you would like EPA to develop a performance standard?
 - We have tried to develop an approach to offsets that minimizes uncertainty and costs for the project developer while maintaining environmental integrity. What is your general impression?
 - If interested, do you believe your company could successfully pursue offsets as a means to meet your target?
 - Are there areas/steps where EPA could provide additional guidance?
 - Are you likely to request expert support to help implement the offsets methodology?

Next Steps

- Develop methodologies for 4-6 additional project types
- Provide assistance to Partners on applying the methodologies to specific offsets projects
 - communicating and testing the overall methodology and for specific project types
 - assistance in applying the methodology to Partner offset projects
- By June 2006, release a draft of 6-8 methodologies
 - review by Climate Leaders Partners
 - revise methodologies as appropriate
- Final offsets guidance available by fall meeting
 - methodologies available for offsets accounting by Partners