

# THE CLARK GROUP, LLC

## DINGELL-BOUCHER CLIMATE CHANGE

### DRAFT LEGISLATION DISCUSSION

The Dingell-Boucher proposed draft legislation would create a **cap-and-trade system** for greenhouse gas (GHG) emissions. **Covered entities** would include electric utilities, petroleum and bulk gas producers and importers, industrial manufacturing facilities, and natural gas local distribution companies. For smaller industries, the Dingell-Boucher plan would give EPA the authority to establish **industry-specific emission standards** for sources that release less than 25,000 tons GHG per year.

**Emission's caps** in the early years would be set to provide a reasonable transition into a carbon-constrained environment. Under the proposal, U.S. emissions would decline 6 percent below 2005 levels by 2020, 44 percent below 2005 levels by 2030, and 80 percent below 2005 levels by 2050.

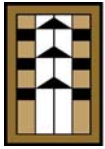
Dingell-Boucher or similar cap-and-trade legislation would provide a significant opportunity for agriculture to generate revenue from offsets and allowances for reducing GHG emissions.

#### *SPECIFICS ON ALLOWANCES*

The Dingell-Boucher proposal would allocate **allowances**, or permits to emit GHG emissions, to a number of sectors and complementary programs. Distribution would depend on the chosen option in the final legislation (see Discussion Draft Allocation Options for the four draft options).

For example, each of the options would distribute or auction a percentage of allowances to a Supplemental Greenhouse Gas Reduction Program, which would be created to reduce GHG emissions in addition to the cap-and-trade program. Under this program, EPA, DOS, USDA, and DOI would be directed to reduce GHG emissions by purchasing and retiring domestic or international offsets; developing and implementing programs; and making grants or distributing allowance allocations. Preferred activities would include activities or grants that capture and beneficially use methane; cost-effectively reduce or sequester GHG emissions; and reduce vulnerability and promote adaptation to climate change impacts in the U.S. and vulnerable developing nations.

Covered entities would be able to bank unused credits and to borrow against credits they would receive in future years. The bill would also set up a special auction of "**strategic reserve**" allowances for companies if carbon prices rose to a certain level.



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**Early action allowances** would be credited to eligible operations commenced after January 1, 2002 and before enactment of the legislation if they were registered under an existing government or private registry or program, including CCAR and RGGI.

## *SPECIFICS ON OFFSETS*

As the cap gets tighter, covered entities could meet a greater percentage of their allowance obligation with **offsets**, or carbon credits for reductions achieved by other sources, according to the following schedule:

Offsets Schedule as a Percentage of Compliance Obligation			
Years	Offsets Total	Domestic Offsets	International Offsets
2013 - 2017	5%	Either	Either
2018 - 2020	15%	Either	Either
2021 - 2024	30%	15%	15%
After 2025	35%	20%	15%

All offset projects would be required to meet strict quality criteria. EPA, in consultation, would establish and revise projects eligible for offset credits. **Eligible projects** would include:

- methane collection and combustion projects at active underground coal mines;
- methane collection and combustion projects at landfills;
- methane collection and combustion projects involving manure management;
- afforestation or reforestation of acreage not forested as of January 1, 2008.

EPA could, at any time, add categories to the list of eligible projects in consultation with USDA on agricultural and forestry offset projects. Within 3 years, EPA would be **required to consider** the following at a minimum:

- practices that increase agricultural soil carbon sequestration;
- conversion of cropland to rangeland or grassland;
- reduction of nitrogen fertilizer use or increase in nitrogen use efficiency;
- forest management resulting in an additional increase in forest stand volume;
- reduced deforestation;
- methane reduction from reclamation of abandoned surface mines;
- recycling and waste minimization;
- controlled wastewater treatment.



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In addition, the draft would establish a petition process whereby any person may propose offset categories for addition or removal from the list of eligible projects.

**Early offset** or pre-existing projects could be granted offset credits if started after January 1, 2006 and registered under existing standards or registry, or offset allowances as described previously.

The legislation would direct EPA to establish methodologies, protocols and standards for **measurement, monitoring, verification and determining additionality**. Existing methodologies, protocols and standards could be considered for incorporation. The legislation also directs EPA to establish rules for **auditing and third-party verification**. Reversals would be addressed by rules including reporting requirements and consequences for reversals, including assignment of liability, responsibility for mitigating, and compensation.

For more information:

House Committee on Energy and Commerce. (07 Oct 2008). Climate Change Legislation Discussion Draft. <http://energycommerce.house.gov/>.

House Committee on Energy and Commerce. (07 Oct 2008). Discussion Draft Allocation Options: Breakdown by Percentages. [http://energycommerce.house.gov/Climate\\_Change/Discussion-Draft-Allocation-Tables-100708.pdf](http://energycommerce.house.gov/Climate_Change/Discussion-Draft-Allocation-Tables-100708.pdf).