

Offset Credits under Oregon Climate Action Program – HB 2020A

Compliance Offsets

Offset credits represent emission reductions from sources not covered by the cap. An offset is generally equivalent to an allowance; both permit the emission of one ton of carbon dioxide equivalent from sources covered by the cap. Offset credits offer an opportunity to spread the incentive for emission reductions to sources not directly covered by cap and trade program. Offsets can also serve as an important cost control mechanism, providing lower cost compliance options and thereby dampening potential increases in the market price.

Offset credits are already being generated in Oregon through voluntary offset markets facilitated by non-profit carbon offset registries and through compliance offsets to comply with the cap and trade system in California. There are currently at least 19 offset projects operating in Oregon, three of which are generating credits through the California cap and trade system. If Oregon enacts a cap and trade system and develops offset protocols well suited to Oregon forests, agriculture, and natural lands, the state can expect more offset projects to be undertaken in Oregon.

The proposed Oregon Climate Action Program allows regulated entities, like utilities, industrial plants, and transportation fuels suppliers, to meet up to 8 percent of their compliance obligation using offset credits. Offset projects must result in greenhouse gas emissions reductions or removals that are real, permanent, quantifiable, verifiable, enforceable, and not otherwise required by law; and are in addition to any other greenhouse gas emissions reductions or removals that would otherwise occur.

Using up to 8 percent offsets for compliance is subject to the following conditions:

- *Geographic Limits:* Offset project must be located in the United States or a jurisdiction with which the state has agreed to link.
- *Air Quality Limits:* The number of offset credits that a regulated entity can submit may be limited if that entity is located in an impacted community and a non-attainment area (significant air quality challenges) or is in violation of their air quality permit.
- *Direct Environmental Benefits:* No more than 4 percent of entities compliance obligations can be met with offset credits that do not have a direct environmental benefit in Oregon.

HB 2020A also includes these major provisions related to offsets:

- Directs the Carbon Policy Office to investigate opportunities to aggregate offset credits to allow smaller landowners to participate in offset projects and investigate offset protocols that reduce methane emissions from agriculture.
- Directs the Carbon Policy Office to work closely with the Department of Agriculture, Department of Forestry, Environmental Justice Task Force, and the Oregon Watershed Enhancement Board.
- Directs the Carbon Policy Office to consider ways to avoid impacts on wood fiber supply available to wood products manufacturers. There will also be a regular analysis and reporting to the legislature by the Oregon Department of Forestry to identify and address any significant net effects on wood fiber supply to wood products manufactures.
- Directs the Carbon Policy Office to adopt a process for issuing early action offset credits that are generated on or after the bill's effective date.
- Requires that offset protocols must include a crediting period during which the project remains eligible to earn credits; provide flexibility for landowners in both developing and operating a project; and be straightforward and effective to implement.
- Directs the Carbon Policy Office to prioritize developing offset protocols for reforestation; avoided forest or grassland conversion; improved forest management; low-carbon impact building materials, urban forestry; and projects that will reduce greenhouse gas emissions from agriculture.
- Requires technical advisory committees to advise the Carbon Policy Office on development of specific offset protocols, and a compliance offset program advisory committee.