

## Midwest Greenhouse Gas Registry Issue Brief

### Purpose of a Multi-state GHG Registry – Considering DOE 1605(b), EPA Climate Leaders and CCX

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#### Summary

This brief suggests why a multi-state greenhouse gas (GHG) registry system would have value above and beyond that of existing U.S. GHG programs and registries. Its key conclusions are:

- Although the U.S. Environmental Protection Agency's Climate Leaders program (Climate Leaders) and the Chicago Climate Exchange (CCX) track the GHG emissions of participating companies using widely accepted GHG accounting standards at the entity-level, they do not function as public GHG registries.
- The U.S. Department of Energy's (DOE) revised 1605(b) voluntary GHG reporting program is designed primarily as a national GHG *reduction* registry to track contributions made by individual entities towards the President's national GHG emission intensity goal. This limits the registry's use to companies who simply wish to register and track GHG emissions, and hinders its ability to support multiple policy objectives over time. Furthermore, DOE has adopted rules for GHG reduction calculations that limit its compatibility with other registries and existing standards.
- None of these existing U.S. GHG programs are particularly well-suited to the stated design objectives of a multi-state registry.

#### Background

In recent months discussions have progressed between several states in the Midwest regarding whether and how to develop or participate in a GHG registry. In a meeting in April 2006, interested stakeholders (which included several businesses and NGO's) and various members of the Midwest Registry Working Group (RWG) discussed design options related to the issue of linkages and collaboration with other registries. To frame this discussion, two main design options were presented to stakeholders:

- *Stand-alone registry*: Midwest states would independently develop all of the elements of a registry without direct linkages to other registries;
- *Multi-state registry*: Midwest states would take measures to formally link and fully collaborate with California (through the California Climate Action Registry (CCAR)), the Eastern states involved in the Eastern Climate Registry (ECR), and other interested states/regions in the development of a multi-state GHG registry platform.

While participating stakeholders (both businesses and NGO's) at the April meeting and through written comments displayed a clear preference for a more unified national GHG registry system versus multiple stand-alone state and regional registries, several stakeholders were not convinced that this national GHG registry system should be a multi-state driven effort. In particular, questions arose regarding whether a multi-state registry system is even necessary due to the existence of other GHG registries and programs in the U.S. – particularly DOE 1605(b), EPA Climate Leaders, and CCX – and how a multi-state registry system would interplay with these other GHG registries and programs.

## **GHG Program Overview**

While the three GHG programs examined in this brief, DOE 1605(b), EPA Climate Leaders, and CCX all have GHG accounting and reporting elements, it is important to note that all three are distinctly different types of programs and therefore serve different functions.

### **DOE 1605(b)**

The DOE 1605(b) program is a GHG registry program that will consist of a public reporting platform. A primary objective of the 1605(b) registry is to provide a platform for tracking the contribution of individual entities towards the President's goal of reducing U.S. emissions intensity by 18 percent between 2002 and 2012. While a potential multi-state GHG registry may serve several objectives and feature GHG accounting and reporting procedures that are different compared to the 1605(b) registry, at the minimum both programs would serve a common function as a public GHG reporting platform.

### **EPA Climate Leaders**

The EPA Climate Leaders program is a voluntary partnership that works with companies to develop and implement GHG management strategies. Climate Leaders partners set a corporate-wide GHG reduction goal and inventory their emissions to measure progress, and follow EPA-specified GHG accounting and reporting procedures, which are based on the World Resources Institute/World Business Council for Sustainable Development GHG Protocol Corporate Accounting and Reporting Standard (GHG Protocol Corporate Standard). Unlike a potential multi-state registry, the Climate Leaders program does not function as a public reporting platform for GHG emissions.

### **CCX**

The CCX functions as a voluntary GHG emission allowance trading program. CCX members make a voluntary, but legally binding commitment to reduce GHG emissions by certain levels. The CCX also has specified GHG accounting and reporting procedures to facilitate the voluntary allowance trading system, and these procedures at the entity level are also based on the GHG Protocol Corporate Standard. However, similar to Climate Leaders, the CCX does not function as a public reporting platform for GHG emissions.

Table 1 below provides a general summary of the DOE 1605(b), EPA Climate Leaders and CCX programs based on various GHG accounting and reporting criteria.

**Table 1: GHG Program Summary Chart**

<b>Summary Criteria</b>	<b>DOE 1605(b)</b>	<b>EPA Climate Leaders</b>	<b>CCX</b>
<b>Type of Program</b>	Voluntary GHG registry	Voluntary GHG reduction program	Voluntary GHG allowance trading scheme
<b>Nature/Purpose of Program</b>	Public registry to track entity-level emission reductions	Corporate GHG management; Public recognition; Assistance setting targets and achieving reductions	Achieve annual targets through tradable allowance market
<b>Focus</b> (Corporate/entity or project-level)	Corporate/entity-level	Corporate/entity-level (project-level component forthcoming)	Corporate/entity and project-level
<b>Gases Covered</b>	Six Kyoto gases	Six Kyoto gases	Six Kyoto gases

<b>Organizational Boundaries</b>	Financial control encouraged; equity share and operational control allowed	Equity share or control for US operations at a minimum	Equity share
<b>Operational Boundaries</b>	<u>Registration:</u> Scope 1 and 2 required; Scope 3 not permitted  <u>Reporting:</u> Nothing required; anything allowed	Scope 1 and 2 required; Scope 3 optional	Direct combustion and process emission sources; indirect emissions optional
<b>Base Year</b>	“Base period” of 1-4 years used to derive base emissions, output, carbon stock and/or emissions intensity	Year that company joins program; recalculation consistent with GHG Protocol	Average of 1998 through 2001
<b>Target</b>	No target required, but in order for an entity to register emissions, a reduction must have occurred	Required, but specific to each company. However, not all companies have taken-on targets. Targets may be on an absolute or intensity basis.	<u>Phase 1:</u> 2003: 1% below base year emissions 2004: 2% below 2005: 3% below 2006: 4% below  <u>Phase 2:</u> 6% below base year emissions by 2010
<b>Accounting for GHG Reductions</b>	Five methods are provided: (1) determining reductions in emissions intensity; (2) determining reductions in absolute emissions; (3) estimating carbon sequestered in forests; (4) determining emission avoided through generation of low-emission energy; and (5) determining reductions from action-specific measures	Reductions are accounted for on an absolute basis by comparing current year emissions to historical base year emissions.	Reductions are accounted for on an absolute basis by comparing current year emissions to historical base year emissions (phase one base year emissions was the average of 1998-2001 emissions)
<b>Verification</b>	Third-party verification encouraged, but not required	Third-party verification optional; program provides guidance and checklist of components that should be included if undertaken	Third-party verification required; inventory reports certified by NASD based on CCX accounting and reporting specifications

The differences in program type and function between the programs summarized above are important to an analysis on the viability and purpose of a multi-state GHG registry. Because the Climate Leaders and CCX programs do not function primarily as a public GHG registry database, their existence should not preclude the necessity of a credible GHG registry platform. In fact, under certain conditions, most importantly in the case where common GHG accounting and reporting standards are followed, there may be opportunities for a GHG registry program to complement the Climate Leaders or CCX programs. As both the Climate Leaders and CCX programs are consistent with the GHG Protocol Corporate Standard, there may be cross-recognition opportunities between these programs and a GHG registry program also

based on the GHG Protocol. These cross-recognition opportunities could involve a mechanism to streamline data transfer from a multi-state registry to one or both of these programs. This type of data transfer mechanism already exists between CCAR and Climate Leaders, both which closely follow the GHG Protocol.

On the other hand, the DOE 1605(b) program does function primarily as a public GHG registry database. It therefore makes sense to assess the 1605(b) program relative to the intended objectives of a multi-state registry and determine its compatibility with those objectives.

### **Objectives of a Multi-State GHG Registry and 1605(b) Comparison Analysis**

The Midwest states have indicated that the primary goal of a multi-state registry should be to ensure a credible GHG emissions measurement and reporting platform to participating entities. The states have also indicated several objectives and principles that should be considered in the design of a multi-state registry.

#### **Support Multiple Policy Objectives**

One of these principles is that the registry should not interfere with or pre-determine any existing or future state, regional or national climate policies. Ensuring that the registry is not tied to a specific policy objective is important because it acknowledges the reality that multiple types of policies may be necessary to address climate change in the future. Future policies are likely to include state-, regional-, and national-level efforts that could be either voluntary or compliance-based. Given the multiple possible trajectories for future policy, a registry that is tied to one specific policy objective may have limited value over time.

To design a registry that can support multiple policy objectives, it is likely that entities would need to report emission data at the unit or facility level, as well as at the company level. While reporting at the company level is important for facilitating corporate GHG management efforts, reporting at the unit or facility level would be important for a variety of likely state and regional-level policy efforts, as well as regulatory policies at all geographic levels. This is because the reporting of unit or facility level emissions data would enable a registry software system to “roll-up” emissions at various geographic levels, and because most compliance-based policies regulate particular units or facilities.

One limitation of the 1605(b) registry is that it is primarily designed to support a specific policy objective, which is a national GHG emissions intensity target. The DOE reiterates several times in its final 1605(b) guidelines that a key objective of the program is to track the contribution that individual entities are making towards the President’s goal of reducing U.S. emissions intensity by 18 percent between 2002 and 2012. This objective has strongly influenced several aspects of the final 1605(b) guidelines, including:

- Entities are only eligible to “register” emissions if a reduction has been achieved since 2002. This is important to note because a primary purpose of the 1605(b) registry is not to track emissions, but to track reductions.
- DOE’s preferred GHG reduction calculation methodology is based on emission intensity. While calculating reductions on an absolute-basis is provided as an option, this is only allowed as long as the economic output associated with the reductions is not declining.
- The registry does not require the reporting of facility or unit level emissions data.

While these design features may enable the DOE registry to best track contributions made by individual entities towards a national GHG emission intensity goal, they could limit the registry’s usefulness over time and hinder its ability to serve as a public registry of emissions as well as support various types of state and regional-level policies or future compliance-based policies at any geographic level.

### **Use of Commonly Accepted GHG Accounting and Reporting Standards**

The Midwest states have been clear that they do not wish to “reinvent the wheel” regarding a multi-state GHG registry, and that the registry should feature credible, broadly accepted and used accounting and reporting standards, such as those featured in the GHG Protocol. By adopting best practice GHG accounting and reporting standards, multi-state registry efforts in the Midwest would be able to integrate with existing and developing registry efforts in California and the Eastern states. Such a multi-state collaborative effort – which the Midwest states have indicated their support for – would simplify business participation, standardize best practices, facilitate the development of innovative state and regional programs, and enable linkages between other GHG programs, such as Climate Leaders and the CCX.

It is important that credible and best practice GHG accounting and reporting procedures are followed both in regards to the development of a GHG inventory, but also for tracking GHG emission reductions. WRI’s assessment of the final 1605(b) guidelines suggests that while aspects of the inventory development component of 1605(b) are credible and consistent with best practice GHG accounting (e.g., guidelines on setting organizational and operational boundaries; entity-level quantification methodologies), the procedures for tracking emission reductions are not consistent and are unnecessarily complicated. In particular, the 1605(b) registry’s emphasis on intensity reductions is out of line with best practice GHG accounting, under which entity-level reductions are quantified simply and transparently by tracking changes in absolute emissions over time. The latter approach has been adopted by both the Climate Leaders and CCX programs, as well as GHG Protocol standards, which are currently followed by hundreds of companies in the U.S. and abroad.

### **Facilitate Corporate GHG Management Strategies**

The Midwest states have also indicated that an important objective of a multi-state registry should be to facilitate corporate GHG management strategies, which may include managing GHG risks, identifying reduction opportunities, demonstrating business leadership, publicly reporting on GHG emissions, improving stakeholder relations, generating energy/process cost savings, and preparing Midwest industries and businesses for an increasingly carbon-constrained economy. WRI believes that a comprehensive, well-designed multi-state registry would best serve these needs and that the business community should support such a multi-state registry for several reasons.

First, a multi-state registry based upon widely accepted GHG Protocol standards would simplify participation for companies that already have developed GHG inventories based on these standards and track reductions following the best practice GHG accounting. On the other hand, the 1605(b) registry – because it is focused on tracking and registering intensity reductions – contains many provisions that are complicated and unfamiliar to companies using standard best practice GHG accounting methods. In particular, the 1605(b) registry:

- *Adopts arbitrary reporting distinctions:* The DOE distinguishes between three tiers of registry participation: “large emitters” who “register” reductions; “small emitters” who “register” reductions; and entities who “report” reductions. The practical significance of these distinctions is not clear, and they may complicate participation for businesses who want to report to the 1605(b) registry.
- *Provides complicated GHG reduction calculation methods:* The DOE provides five methods for calculating emission “reductions” that are tailored to different contexts and based on different approaches and assumptions. This multiplicity of methods is confusing and inconsistent with best practice GHG accounting. It may also cause businesses and other stakeholders to question the transparency of what is being reported and registered.

Second, many U.S. companies are already participating in voluntary programs such as Climate Leaders and CCX. As stated above, both of these programs follow best practice GHG accounting methods concerning inventory development and tracking entity-level emission reductions. A multi-state registry

that followed compatible GHG accounting and reporting standards may be able to complement these programs through data transfer mechanisms, similar to the current cross-recognition arrangement between CCAR and Climate Leaders.

**Conclusion**

There is no denying that it would be ideal that there is one credible national GHG registry platform, based on best practice GHG accounting standards, that can support multiple policy objectives over time, has the support of the environmental and business communities, and is endorsed by the Federal government. However, it is clear that the DOE 1605(b) program does not meet most of these criteria. In the background of this comparison analysis, there is a strong case to be made to continue to pursue the development of a multi-state GHG registry platform based on standardized best practice GHG accounting procedures that can serve the needs of particular states and regions, businesses, and that can support a variety of current and future climate policies and objectives.