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Using Domestic Offset Projects in the EU ETS

Where next for the EU Emissions Trading Scheme?

LETS UPDATE, 2nd of May 2006, London

Presented by
Dr. Regina Betz

Presentation outline

- German domestic offset case study
- Transaction Costs
- Australian Experience: Greenhouse Gas Abatement Scheme (GGAS)
  - Project types
  - Positive experiences
  - Critique
- Final thoughts to discuss

German case study

- Limited scope for domestic offset project if a lot of policies already in place (e.g. Germany only niches for emissions reductions)
- Reduction potential due to insufficient enforcement of policies? -> is this in line with policy additionality?
- Case study in building sector (wood boiler) showed:
  - Individual reduction potential low (e.g. 172 t CO2e (baseline: gas) up to 302 t CO2e (baseline: oil) ,
  - transaction costs relatively high
  - price needs to be high to make project profitable estimations 41.2 and 72.7 €/t CO2e

Transaction costs

- Transaction costs of domestic offset projects will be lower compared to CDM since:
  - Lower risks (e.g. political, currency), legal environment familiar and same language
- Transaction costs depend on implementation
  - Higher standardization ->increases costs for government but reduces ongoing costs for project developers
  - Stringency of additionality assessment: trade-off between environmental integrity of system – low transaction costs
- Transaction costs can be reduced by:
  - standardized documentation
  - baseline and monitoring stipulation
  - less frequent monitoring, verification and certification requirements
  - low registration fees
  - easy additionality assessment (e.g. CCS)
  - bundling of projects

Australia (NSW): GGAS I

- Project types (status 2004):
  - 91% in electricity generation:
    - Landfill gas
    - Waste coal mine gas
  - 8 % Demand Side Management
- No projects in transport or building sector beside DSM:
  - no priority sectors therefore no rules developed
  - Transport sector better to be covered upstream
- Positive experiences:
  - Nomination process: projects are implemented by nominated body which enables bundling of projects and reduces transaction costs
  - Monitoring and verification: standard verification is done internally and admin. body is client for third party verification (special verification needs)

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Australia (NSW): GGAS II

Additionality:

- GGAS doesn't *explicitly* discuss or attempt to assess additionality at all.
- CEEM evaluation has shown that:
  - More than 90% came from projects built + operating well before 2003
  - Great majority of these projects were not required to make operational changes in order to earn NGACs
- Additionality important for environmental integrity and difficult to prove if standardized baselines

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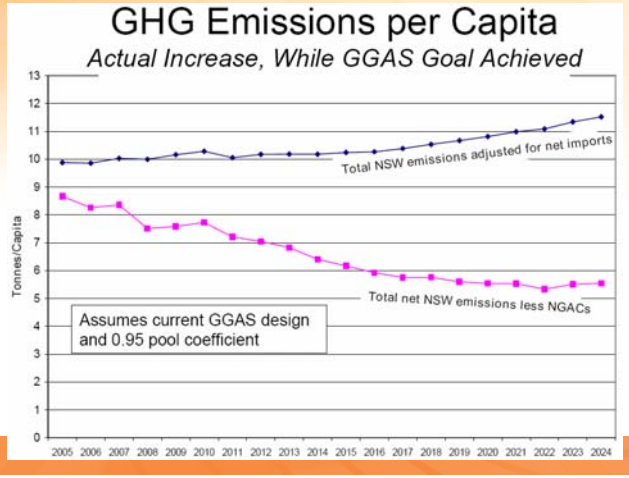
Environmental performance

- Example: A scenario of GGAS performance to 2025
  (Nemtzow, NSW Power and Gas Conference, 2005)



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Final thoughts to discuss

- Be cautious with Domestic Offset Projects since:
  - they do not contribute to additional reductions only to lower costs!
  - they are only a carrot no stick!
    -> no cap and therefore no penalty for increasing emissions only benefits for reducing emissions
  - they can increase emissions by acting as a subsidy (see CDM experience with HFC projects)
  - they might reduce likelihood of extension of a cap and trade scheme since transformation process needed
  - they might complicate target sharing between covered and non-covered sectors
  - double counting is likely e.g. Demand Side Management in building sector if electricity savings are concerned
- But, domestic projects can be valuable:
  - For projects with easy additionality assessment e.g. Carbon Capture and Storage, Methane and industrial gas reductions,
  - To create additional innovation incentives (Search function of the market)

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UNSW
THE UNIVERSITY OF NEW SOUTH WALES
SYDNEY • AUSTRALIA

r.betz@unsw.edu.au

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