Green Building and Carbon Offsets – A Missed Opportunity?

Like many other New Jersey business people and professionals who have spent the better part of their careers working in a state known for its progressive environmental policies, I was surprised by the recent announcement that New Jersey would withdraw from the Regional Greenhouse Gas Initiative, or RGGI, at the end of 2011. And as I have reviewed the policy debate surrounding this decision, I am again puzzled by our (collective) resistance to policies and programs that attempt to impose real economic consequences associated with our energy choices. RGGI is a cooperative 10-state "cap and trade" arrangement through which regulated power sources in these states (*i.e.* those with a generating capacity of 25 megawatts (MW) or greater) are required to hold RGGI-auctioned carbon allowances equal to their anticipated CO_2 emissions over a three-year period. The agreed "cap" is a 10% reduction from 2005 levels of CO_2 emissions by the end of 2018. The allowances can be "traded" by the regulated sources, and can be used across state lines (*i.e.* allowances are valid in any participating state, not just the state from which it was initially auctioned), thus creating a "single regional compliance market" for CO_2 emission targets.

In his statement announcing the withdrawal, Governor Chris Christie conceded that "it's time to defer to the experts" on the issue of human contribution to global warming (a welcome departure from his previous statement which seemed to question the validity of the scientific community's consensus on this point). He nonetheless concluded that RGGI was "ineffective" in reducing greenhouse gas emissions and is "unlikely to be [effective] in the future." The metric he cited in support of this conclusion is the relatively low price of carbon allowances auctioned through RGGI ($2.00 per ton, in contrast to the projected price of $20-$30 per ton when New Jersey initiated its participation in the program). Because of this, "RGGI does nothing more than tax electricity, tax our citizens, tax our businesses, with no discernable or measurable impact upon our environment." While there is lingering debate about the causes of the low price (most often attributed to the slow economy and the increased reliance on natural gas) and the relative benefits of participation in RGGI, it is worth noting that even with the crash in carbon allowance prices (at the most recent auction only 30% of available allowances were actually purchased, all at the reserve price of $1.89 per ton), as of this past February, the RGGI participating states have raised over $885 million to fund other strategic energy programs.

One of the additional benefits initially touted for participation in RGGI was the availability of "offsets" through which regulated power plants could meet up to 3.3% of their total compliance obligations "outside of the energy sector". There are six categories of potentially qualifying offset projects, one of which is "energy efficiency" *i.e.* the "reduction or avoidance of CO_2 emissions from natural gas, oil or propane end-use combustion due to end-use energy efficiency in the building sector" . When Maryland joined RGGI, Stuart Kaplow was enthusiastic about the potential benefits of this offset category to the green building sector, but correctly cautioned that "the efficacy of green building as an offset will depend heavily on yet to be issued state regulations." In fact, it does not appear that a single RGGI participating state has developed implementing regulations to support this (or any other) category of CO_2 offset. I can only assume that the primary reason for this is that the overabundance of allowances at (relatively) low cost creates no real economic incentive to

pursue offsets as an alternate compliance path. In other carbon trading markets in which green building offsets are recognized and utilized, there is the additional challenge of verification. As Shari Shapiro aptly noted more than a year ago, "[n]othing will erode the credibility of a cap-and-trade system faster than discovering that the carbon offsets at the base of the market are fraudulent."

Of the many perceptions about green building, "increased cost" is perhaps the most pervasive. While those of us conversant in the jargon can quickly launch into a discussion of "life-cycle cost assessment" and "triple bottom line" benefits, the reality is that, for much of the real estate market, "green building" are bad words. Accessible funding mechanisms to defray increased up-front costs (real or imagined) are necessary to continue to drive the green building movement into new market sectors. Government funding constraints will continue to inhibit even the most laudable of sustainability goals. Carbon offsets, however, offer a potential *market-based* funding mechanism that, if properly implemented, could generate millions to fund green construction. Verification will continue to be challenging, but throughout the sustainability industry new processes, standards and tools are developed on an almost daily basis that can provide a sound framework for audit and verification.

The very existence of a carbon offset market relies upon mandatory carbon emission caps. While RGGI may not be right for New Jersey, there must be some recognition by our policymakers that it will take money to move us to a renewable energy future. The current political and fiscal climate seems to facilitate a great deal of foot-dragging, even in the face of ever more convincing scientific evidence that the longer we persist in our energy profligacy, the more challenged the world's resources will become for future generations. It's time to be creative in our approach, and to take advantage of the tools at our disposal. Are carbon offsets a missed opportunity for green building? You be the judge.