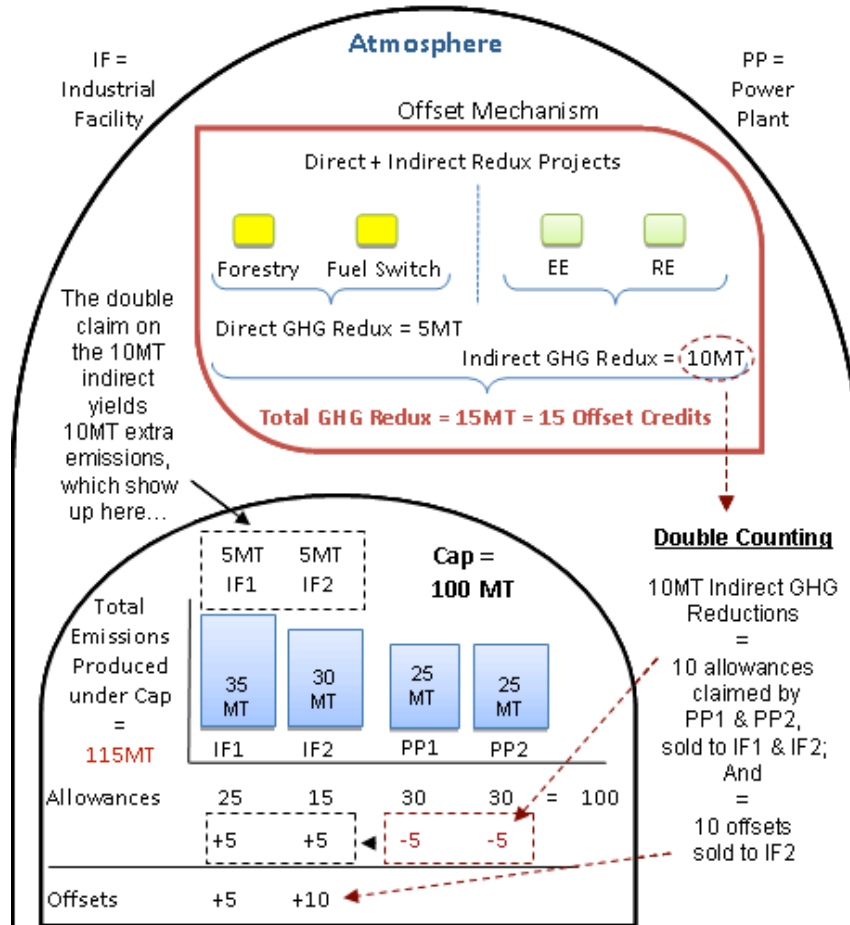


Appendix B: Comparison of Cap and Trade Scenarios

Figure 1: Double-counting occurs because indirect GHG reductions are treated the same as those from direct offset projects. The result is a double-claim on the project's reductions – by an entity outside the cap and an entity within the cap – and due to the trading feature of the program, emissions exceed the cap.

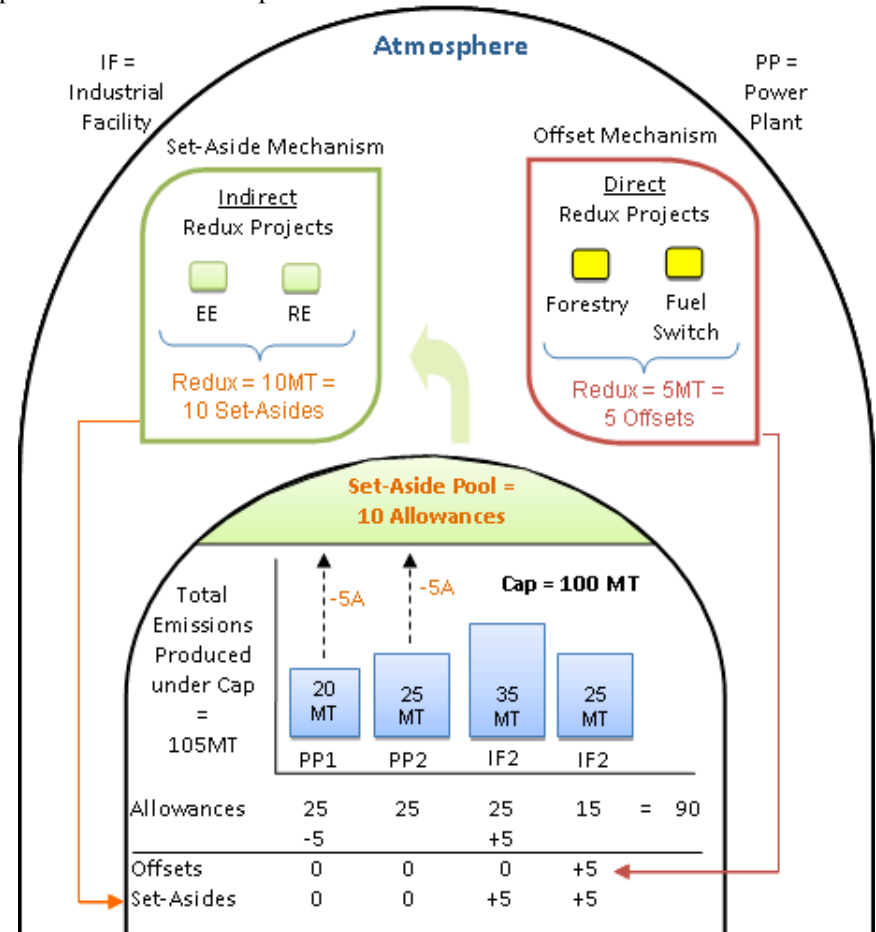


Reckoning:

Total Emissions = 115MT > 100 Allowances + 15 Offsets – 10 Indirect Redux claimed by PP1 & PP2

- Environmental integrity of cap and trade undermined
→ The 15MT in excess of the cap **not** balanced by the 15MT from offsets
- Double counting occurs
→ The 10MT indirect redux also claimed by PP1 & PP2; sold twice to IFs
→ The result of grouping indirect GHG redux projects with direct redux

Figure 2: Double-counting avoided and the environmental integrity of the program is preserved. The set-aside mechanism contains allowances from capped entities, which are eventually reconciled with actual emissions produced under the cap.



Reckoning:

Total Emissions = 105MT = 90 Allowances + 10 Set-Asides + 5 Offsets

- Environmental integrity of cap and trade preserved
→ The 5MT in excess of the cap balanced by the 5MT reduction from offsets
- Double counting avoided
→ Set-asides originate as allowances
(Allowances for capped entities ↓ from 100 to 90 to create set-aside pool)
→ Set-aside mechanism separate from offset mechanism