July 8, 2002

The President
The White House
Washington, DC 20500

Dear Mr. President:

The Department of Energy's Voluntary Reporting of Greenhouse Gases program has been operational since 1994. The program records the results of voluntary measures to reduce, avoid, or sequester greenhouse gas emissions. In your February 14, 2002, climate change announcement, you recognized the need to enhance the greenhouse gas registry by improving the program's accuracy, reliability, and verifiability as a means of more effectively promoting innovative and effective ways to reduce greenhouse gas emissions. An enhanced registry will encourage participation by increasing confidence that actions are accurately recorded and credited.

On February, 14, 2002, you:

> *Directed the Secretary of Energy, in consultation with the Secretary of Commerce, the Secretary of Agriculture, and the Administrator of the Environmental Protection Agency, to propose improvements to the current voluntary emissions reduction registration program under section 1605(b) of the 1992 Energy Policy Act within 120 days. These improvements will enhance measurement accuracy, reliability, and verifiability, working with and taking into account emerging domestic and international approaches.*
>
> *Directed the Secretary of Energy to recommend reforms to ensure that businesses and individuals that register reductions are not penalized under a future climate policy and to give transferable credits to companies that can show real emissions reductions.*
>
> *Directed the Secretary of Agriculture, in consultation with the Environmental Protection Agency and the Department of Energy, to develop accounting rules and guidelines for crediting sequestration projects, taking into account emerging domestic and international approaches.*

We view the directives to improve the greenhouse gas registry and credit those who voluntarily make real reductions in greenhouse gas emissions as key

components of this Administration's overall climate program. The *National Energy Policy*, the June 11, 2001, climate announcement focusing on science and technology initiatives, and the February 14, 2002, announcement focusing on reaching an 18 percent improvement in greenhouse gas intensity by 2012, clarify the Administration's commitment to:

- Enhance and prioritize research, through the *Climate Change Research Initiative*, to reduce the significant uncertainties that remain on the likely causes and possible long-term effects of global climate change;

- Support focused research and development, through the *National Climate Change Technology Initiative*, to develop and deploy the technologies needed to sustain economic growth and reduce the projected growth in emissions;

- Provide economic incentives to reduce emissions, including tax incentives for hybrid cars, residential solar energy systems, methane capture, combined heat and power systems, and electricity from wind and biomass;

- Encourage voluntary action to achieve real reductions of greenhouse gas emissions and increases in carbon sequestration, in conjunction with more than 60 mandatory, voluntary, and incentive-based Federal programs and similar efforts in the States; and

- Promote new and expanded international cooperation to address climate change, including accelerated adoption of clean energy technologies.

The current Voluntary Reporting of Greenhouse Gases program, created pursuant to the 1992 Energy Policy Act and managed by the Department of Energy's Energy Information Administration (EIA), has been operational since 1994. EIA's *Voluntary Reporting of Greenhouse Gases 2000* contains reports from 222 corporations, associations, and individuals. About half of these reports are "entity" (corporate-wide) reports. In addition, there are 1,882 project-level greenhouse gas and sequestration reports.

In response to your directive, we have undertaken several actions to improve the voluntary greenhouse gas registry and consider options to credit real reductions and sequestration.

First, we initiated simultaneous outreach efforts to the general public; industry; environmental, agricultural, and forestry groups; the financial community; and public policy organizations to solicit views on how to improve the greenhouse gas registry. We also met with fourteen States and several organizations that represent State and local energy and air pollution agencies. We issued a Notice of Inquiry with a 30-day public comment period, which ended June 5, 2002. To date, we have received over 80 sets of comments from a broad cross-section of stakeholders representing a wide range of views. Many written comments came from groups with whom we have met.

Second, we charged an interagency team with identifying options for improving the program. This team critically reviewed the existing Voluntary Reporting of Greenhouse Gases program, examined emerging State programs and international approaches to greenhouse gas reporting, met with stakeholders, and met with managers of analogous government programs in Japan, Australia, and the United Kingdom.

Third, we established an interagency team to identify options for developing accounting rules and guidelines for agriculture and forestry projects. This team is conducting a review of the existing accounting methods for forest and agricultural activities and developing recommendations for establishing standardized reporting guidelines for agriculture and forestry that are consistent with the crediting system.

Fourth, because of the business community's broad interest in voluntary efforts to address climate change, we met with trade associations and companies who may want to take on additional or new agreements to meet the challenge you made in the February 14, 2002, announcement.

Fifth, at your directive, the Department of Energy and the Department of Commerce instituted the cabinet level Committee on Climate Change Science and Technology Integration and the deputies level Interagency Working Group to aggressively move ahead and craft a path forward on our science and technology programs.

During this process, we encountered many significantly different views about what to report, what should "count" as a real reduction, how companies' emissions reductions and carbon sequestration could be credited under future policy, ways to ensure data accuracy, credibility, and transparency, and the importance of consistency between State and Federal reporting systems. We were also encouraged to maintain a fully inclusive process as we consider revisions to the program. The stakeholder process has been very useful and has underscored the need for more thorough public involvement, as outlined below.

We view our primary goal as creating a credible and transparent program to report and credit real reductions that support the national goal of reducing U.S. emissions intensity by 18 percent by 2012. Our discussions – both internally and with our stakeholders – have led us to identify the following recommended improvements to the Voluntary Reporting of Greenhouse Gases program:

1. *Develop fair, objective, and practical methods for reporting baselines, reporting boundaries, calculating real results, and awarding transferable credits for actions that lead to real reductions.* Developing such methods is central to achieving the objective of "measurement accuracy, reliability, and verifiability," as specified in the February 14, 2002, announcement.

2. *Standardize widely accepted, transparent accounting methods.* In 1994, when DOE's voluntary greenhouse gas reporting program was launched, accounting methods were deliberately flexible to promote broad participation. Since then, a large body of work on corporate and project-level emissions, reductions, and sequestration accounting has been developed. The revised and standardized voluntary reporting program will take these methods into consideration and establish a systematic and transparent approach for updating accounting rules as they evolve.

3. *Support independent verification of registry reports.* As the current voluntary program evolves from a reporting program toward a crediting program, it is important to ensure that reports are accurately and consistently prepared and in compliance with specified accounting rules. Requiring independent verification of reports, particularly those that qualify for transferable credits, will enhance the accuracy, acceptability, and credibility of the program.

4. *Encourage reporters to report greenhouse gas intensity (emissions per unit of output) as well as emissions or emissions reductions.* Reporting emissions intensity allows firms to take growth into consideration and is consistent with the overall goal of achieving an improvement in greenhouse gas intensity by 2012. To verify the intensity measures, reporters will need to submit the data necessary to calculate emissions intensity.

5. *Encourage corporate or entity-wide reporting.* The revised voluntary reporting program should encourage corporate or entity-wide reporting. However, many important prospective emission reductions actions, such as those relating to sequestration, energy efficiency, small-scale renewable energy, or actions that reduce greenhouse gases other than carbon dioxide may be difficult to accommodate within the context of entity-wide

emissions reporting. Encouraging entity-wide reporting while allowing for opportunities to report by projects acknowledges the importance of recognizing a broad range of actions and facilitating cost effective ways to reduce direct and indirect emissions.

6. *Provide credits for actions to remove carbon dioxide from the atmosphere as well as for actions to reduce emissions.* Sequestration activities can provide a valuable contribution to meeting our 2012 goal. Providing incentives and recognition for actions to reduce the concentration of greenhouse gases in the atmosphere will facilitate their adoption.

7. *Develop a process for evaluating the extent to which past reductions may qualify for credits.* A process needs to be developed for evaluating these past efforts against the criteria now being developed for consistent and accurate reporting.

8. *Assure the voluntary reporting program is an effective tool for reaching the 18 percent goal.* The enhanced registry and reporting program is one piece of a broad domestic effort to reach our 18 percent goal. It is important to link voluntary programs, such as the Environmental Protection Agency's Climate Leaders and Business Challenges, with reporting guidelines to encourage consistency between private actions and public goals.

9. *Factor in international strategies as well as State-level efforts.* As directed on February 14, 2002, we need to carefully review emerging international approaches, including other national efforts such as those of Australia, Canada, Japan, Denmark, and the United Kingdom (and other Member States of the European Union). In addition, public and private domestic approaches should be closely considered.

10. *Minimize transactions costs for reporters and administrative costs for the Government, where possible, without compromising the foregoing recommendations.*

While this effort is considerably more complex than the creation of the program in 1992-1994, we nevertheless propose an expedited process based on these recommendations and additional ideas we expect to emerge from our ongoing outreach efforts. The process, which will culminate in new guidelines by January 2004, (for reporting 2003 data) includes: several stakeholder workshops; sufficient time to update technical guidelines based on analysis and workshops; public comment periods to review the revised guidelines; development of reporting forms, software, and a public-use database; and required Office of Management and Budget review and clearance of new reporting forms.

We will continue to aggressively pursue the improvements directed in the February 14, 2002, announcement. We are convinced that by creating a process that fully engages the many stakeholders who are concerned about climate change, we can develop a reporting and crediting system with broad support that will result in significant and credible actions to help us meet our climate goals.

Sincerely,

Spencer Abraham

Donald L. Evans

Ann M. Veneman

Christine Todd Whitman