

From the April 2008 Issue

Capturing the Value of Carbon Credits in Biofuels Projects

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In the early days of renewable power development, generators knew that, in addition to producing electricity, their technologies also generated significant environmental and social benefits (especially in terms of reduced greenhouse gas emissions), which quickly became known as renewable energy credits.

However, before markets evolved for trading these credits, power generators and their investors, lenders and customers often did not address them in their facility contracts. As formal and informal markets developed for the exchange of renewable energy credits, substantial uncertainty (and a fair bit of litigation) arose among these parties over the rights to the credits just as they were becoming a valuable commodity.

Today, producers of renewable fuels face an analogous situation with regard to carbon credits. A carbon credit is typically considered to be a tradable right that represents the environmental benefits gained by capturing, consuming or displacing 1 metric ton of carbon dioxide that would otherwise be released into the atmosphere.

Both formal and informal markets are quickly developing to enable the exchange of credits between the owners of the facilities that produce them and purchasers who seek to acquire credits as a synthetic offset of their own emissions.

As new technologies lead to reductions in carbon dioxide emissions associated with the biofuel production process, producers are well-advised to keep carbon credits in mind.

To avoid the pitfalls experienced by pioneers in power generation, developers must first understand the areas of their operations that are likely to give rise to credits. Technologies that reduce carbon dioxide emissions (e.g., by using biomass for plant energy), sequester emissions (e.g., underground storage), or consume carbon dioxide (e.g., photosynthesis in an algae bioreactor) are all candidates.

Once the potential for credits is understood, developers should look to clearly address their ownership in facility contracts in order to avoid disputes over title.

While it is difficult to forecast exactly how carbon markets will evolve, forward thinking and a few appropriately placed words should minimize the potential for history to repeat itself.

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