Interaction between Offsetting Investments and Carbon Charges

Yale University

Notes from Presidential Carbon Charge Task Force: Carbon offsets subcommittee meeting

These notes summarize deliberations about the interaction between Yale’s commitments to reducing external carbon emissions and various approaches to internal carbon pricing. They are lightly edited for clarity.

On carbon offsets

It seems unlikely that the imposition of carbon pricing will result in sufficient carbon reductions to meet Yale’s earlier greenhouse gas emissions reduction commitments. To the extent the university wishes to maintain those commitments, it will have to consider carbon offsets, or some similar investment. We recommend the university purchase offsets that are certified by a widely trusted third-party. A case can also be made for the university to favor investments in local projects and those that advance other social justice and environmental goals.

Relative to the price on carbon Yale is likely to set for its carbon charge, the current price of certified offsets is low—generally below $10 per ton, and as low as $2 per ton. This is problematic: While the university may be buying offsets for under $10 per ton, building units would be paying the much higher social cost figure of $37 per ton. We thus recommend that units not be allowed to buy offsets to avoid Yale’s internal carbon charge. That would make the $37 per ton figure meaningless. Tension from this pricing discrepancy is unavoidable.

On renewable energy certificates (RECs)

Yale currently sells renewable energy certificates (RECs) earned from its wind farm on the open market. The carbon price implied by the kilowatt-hour price of these RECs—roughly $100 per carbon ton—is considerably higher than the offset prices. This gives Yale a third “carbon price.” Some have argued that we retire, not sell, our RECs, instead of purchasing carbon offsets. The committee does not recommend this. The REC prices are the result of a regulatory process, rather than a specific carbon price. An alternative is to earmark the funds raised from the sale of the RECs for carbon reduction activities at Yale. At present the REC fees (about $6 million) sit within the general Yale budget.

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