To provide for a program of scientific research on abrupt climate change, to accelerate the reduction of greenhouse gas emissions in the United States by establishing a market-driven system of greenhouse gas tradeable allowances that could be used interchangeably with passenger vehicle fuel economy standard credits, to limit greenhouse gas emissions in the United States and reduce dependence upon foreign oil, and ensure benefits to consumers from the trading in such allowances.

IN THE SENATE OF THE UNITED STATES

JANUARY 9, 2003

Mr. LIEBERMAN (for himself and Mr. MCCAIN) introduced the following bill; which was read twice and referred to the Committee on Environment and Public Works

A BILL

To provide for a program of scientific research on abrupt climate change, to accelerate the reduction of greenhouse gas emissions in the United States by establishing a market-driven system of greenhouse gas tradeable allowances that could be used interchangeably with passenger vehicle fuel economy standard credits, to limit greenhouse gas emissions in the United States and reduce dependence upon foreign oil, and ensure benefits to consumers from the trading in such allowances.

Be it enacted by the Senate and House of Representa-

tives of the United States of America in Congress assembled,
1 SECTION 1. SHORT TITLE.

2 This Act may be cited as the “Climate Stewardship Act of 2003”.

4 SEC. 2. TABLE OF CONTENTS.

5 The table of contents for this Act is as follows:

Sec. 1. Short title.
Sec. 2. Table of contents.
Sec. 3. Definitions.

TITLE I—FEDERAL CLIMATE CHANGE RESEARCH AND RELATED ACTIVITIES

Sec. 101. National Science Foundation scholarships.
Sec. 102. Commerce Department study of technology transfer barriers.
Sec. 103. Report on United States impact of Kyoto protocol.
Sec. 104. Research grants.
Sec. 105. Abrupt climate change research.
Sec. 106. NIST greenhouse gas functions.
Sec. 107. Development of new measurement technologies.
Sec. 108. Enhanced environmental measurements and standards.
Sec. 109. Technology development and diffusion.

TITLE II—NATIONAL GREENHOUSE GAS DATABASE

Sec. 201. National greenhouse gas database and registry established.
Sec. 202. Inventory of greenhouse gas emissions for covered entities.
Sec. 203. Greenhouse gas reduction reporting.
Sec. 204. Measurement and verification.

TITLE III—MARKET-DRIVEN GREENHOUSE GAS REDUCTIONS

Subtitle A—Emission Reduction Requirements; Use of Tradeable Allowances

Sec. 311. Covered entities must submit allowances for emissions.
Sec. 312. Compliance.
Sec. 313. Tradeable allowances and fuel economy standard credits.
Sec. 314. Borrowing against future reductions.
Sec. 315. Other uses of tradeable allowances.
Sec. 316. Exemption of source categories.

Subtitle B—Establishment and Allocation of Tradeable Allowances

Sec. 331. Establishment of tradeable allowances.
Sec. 332. Determination of tradeable allowance allocations.
Sec. 333. Allocation of tradeable allowances.
Sec. 334. Initial allocations for early participation and accelerated participation.
Sec. 335. Bonus for accelerated participation.
Sec. 336. Ensuring target adequacy.

Subtitle C—Climate Change Credit Corporation

Sec. 351. Establishment.
Sec. 3. Definitions.

In this Act:

(1) Administrator.—The term “Administrator” means the Administrator of the Environmental Protection Agency.

(2) Baseline.—The term “baseline” means the historic greenhouse gas emission levels of an entity, as adjusted upward by the Administrator to reflect actual reductions that are verified in accordance with—

(A) regulations promulgated under section 201(c)(1); and

(B) relevant standards and methods developed under this title.

(3) Covered sectors.—The term “covered sectors” means the electricity, transportation, industry, and commercial sectors, as such terms are used in the Inventory.

(4) Covered entity.—The term “covered entity” means an entity (including a branch, department, agency, or instrumentality of Federal, State, or local government) that—
(A) owns or controls a source of greenhouse gas emissions in the electric power, industrial, or commercial sectors of the United States economy (as defined in the Inventory), refines or imports petroleum products for use in transportation, or produces or imports hydrofluorocarbons, perfluorocarbons, or sulfur hexafluoride; and

(B) emits over 10,000 metric tons of greenhouse gas per year, measured in units of carbon dioxide equivalence, or produces or imports—

(i) petroleum products that, when combusted, will emit,

(ii) hydrofluorocarbons, perfluorocarbons, or sulfur hexafluoride that, when used, will emit, or

(iii) other greenhouse gases that, when used, will emit, over 10,000 metric tons of greenhouse gas per year, measured in units of carbon dioxide equivalence.

(5) DATABASE.—The term “database” means the National Greenhouse Gas Database established under section 201.
(6) **DIRECT EMISSIONS.**—The term “direct emissions” means greenhouse gas emissions by an entity from a facility that is owned or controlled by that entity.

(7) **FACILITY.**—The term “facility” means a building, structure, or installation located on any 1 or more contiguous or adjacent properties of an entity in the United States.

(8) **GREENHOUSE GAS.**—The term “greenhouse gas” means—

(A) carbon dioxide;
(B) methane;
(C) nitrous oxide;
(D) hydrofluorocarbons;
(E) perfluorocarbons; and
(F) sulfur hexafluoride.

(9) **INDIRECT EMISSIONS.**—The term “indirect emissions” means greenhouse gas emissions that are—

(A) a result of the activities of an entity;
but
(B) emitted from a facility owned or controlled by another entity; and
(C) not reported as direct emissions by the entity from which they were emitted.

(11) PHASE I ALLOTMENT.—The term “Phase I allotment” means—

(A) the amount of emissions emitted by a covered sector, as identified in the Inventory for the calendar year preceding the calendar year in which this Act is enacted (reduced by the amount of allowances allocated to early and accelerated participants under section 334 of this Act); multiplied by—

(B) the result of—

(i) the total greenhouse emissions for all covered sectors for the year 2000, as identified in the 2000 Inventory; divided by

(ii) the total greenhouse emissions for all covered sectors for the calendar year preceding the date of enactment of this Act, as identified in the Inventory.

(12) PHASE II ALLOTMENT.—The term “Phase II allotment” means—
(A) the amount of emissions emitted by a
covered sector, as identified in the Inventory for
the calendar year preceding the calendar year
in which this Act is enacted (reduced by the
amount of allowances allocated to early and ac-
celerated participants under section 334 of this
Act); multiplied by—

(B) the result of—

(i) the total greenhouse emissions for
all covered sectors for the year 1990, as
identified in the 1990 Inventory; divided by

(ii) the total greenhouse emissions for
all covered sectors for the calendar year
preceding the date of enactment of this
Act, as identified in the Inventory.

(13) Registry.—The term “registry” means
the registry of greenhouse gas emission reductions
established under section 201(b)(2).

(14) Secretary.—The term “Secretary”
means the Secretary of Commerce.

(15) Sequestration.—

(A) In general.—The term “sequestra-
tion” means the capture, long-term separation,
isoation, or removal of greenhouse gases from
the atmosphere.
(B) INCLUSIONS.—The term “sequestration” includes—

(i) agricultural and conservation practices;

(ii) reforestation;

(iii) forest preservation; and

(iv) any other appropriate method of capture, long-term separation, isolation, or removal of greenhouse gases from the atmosphere, as determined by the Administrator.

(C) EXCLUSIONS.—The term “sequestration” does not include—

(i) any conversion of, or negative impact on, a native ecosystem; or

(ii) any introduction of non-native species or genetically modified organisms.

(16) SOURCE CATEGORY.—The term “source category” means a process or activity that leads to direct emissions of greenhouse gases, as listed in the Inventory.
TITLE I—FEDERAL CLIMATE CHANGE RESEARCH AND RELATED ACTIVITIES

SEC. 101. NATIONAL SCIENCE FOUNDATION SCHOLARSHIPS.

The Director of the National Science Foundation shall establish a scholarship program for post-secondary students studying global climate change, including capability in observation, analysis, modeling, paleoclimatology, consequences, and adaptation.

SEC. 102. COMMERCE DEPARTMENT STUDY OF TECHNOLOGY TRANSFER BARRIERS.

(a) Study.—The Assistant Secretary of Technology Policy at Department of Commerce shall conduct a study of technology transfer barriers, best practices, and outcomes of technology transfer activities at Federal laboratories related to the licensing and commercialization of energy efficient technologies. The study shall be submitted to the Senate Committee on Commerce, Science, and Transportation and the House of Representatives Committee on Science within 6 months after the date of enactment of this Act. The Assistant Secretary shall work with the existing interagency working group to address identified barriers.
(b) Agency Report To Include Information on Technology Transfer Income and Royalties.— Paragraph (2)(B) of section 11(f) of the Stevenson-Wydler Technology Innovation Act of 1980 (15 U.S.C. 3710(f)) is amended—

(1) by striking “and” after the semicolon in clause (vi);

(2) by redesignating clause (vii) as clause (ix); and

(3) by inserting after clause (vi) the following:

“(vii) the number of fully-executed licenses which received royalty income in the preceding fiscal year for climate-change or energy-efficient technology;

“(viii) the total earned royalty income for climate-change or energy-efficient technology; and’’.

(c) Increased Incentives for Development of Climate-Change or Energy-Efficient Technology.—Section 14(a) of the Stevenson-Wydler Technology Innovation Act of 1980 (15 U.S.C. 3710c(a)) is amended—

(1) by striking “15 percent,” in paragraph (1)(A) and inserting “15 percent (25 percent for climate change-related technologies),”; and
SEC. 103. REPORT ON UNITED STATES IMPACT OF KYOTO PROTOCOL.

Within 6 months after the date of enactment of this Act, the Secretary shall submit a report to the Senate Committee on Commerce, Science, and Transportation and the House of Representatives Committee on Science on the effects that the entry into force of the Kyoto Protocol will have on—

(1) United States industry and its ability to compete globally;

(2) international cooperation on scientific research and development; and

(3) United States participation in international environmental climate change mitigation efforts and technology deployment.

SEC. 104. RESEARCH GRANTS.


(1) by redesignating subsection (c) as subsection (d); and

(2) by inserting after subsection (b) the following:
“(c) Research Grants.—

“(1) Committee to Develop List of Priority Research Areas.—The Committee shall develop a list of priority areas for research and development on climate change that are not being addressed by Federal agencies.

“(2) Director of OSTP to Transmit List to NSF.—The Director of the Office of Science and Technology Policy shall transmit the list to the National Science Foundation.

“(3) Funding through NSF.—

“(A) Budget Request.—The National Science Foundation shall include, as part of the annual request for appropriations for the Science and Technology Policy Institute, a request for appropriations to fund research in the priority areas on the list developed under paragraph (1).

“(B) Authorization.—For fiscal year 2004 and each fiscal year thereafter, there are authorized to be appropriated to the National Science Foundation not less than $17,000,000, to be made available through the Science and Technology Policy Institute, for research in those priority areas.”.
SEC. 105. ABRUPT CLIMATE CHANGE RESEARCH.

(a) IN GENERAL.—The Secretary, through the National Oceanic and Atmospheric Administration, shall carry out a program of scientific research on potential abrupt climate change designed—

(1) to develop a global array of terrestrial and oceanographic indicators of paleoclimate in order sufficiently to identify and describe past instances of abrupt climate change;

(2) to improve understanding of thresholds and nonlinearities in geophysical systems related to the mechanisms of abrupt climate change;

(3) to incorporate these mechanisms into advanced geophysical models of climate change; and

(4) to test the output of these models against an improved global array of records of past abrupt climate changes.

(b) ABRUPT CLIMATE CHANGE DEFINED.—In this section, the term “abrupt climate change” means a change in climate that occurs so rapidly or unexpectedly that human or natural systems may have difficulty adapting to it.

SEC. 106. NIST GREENHOUSE GAS FUNCTIONS.

Section 2(c) of the National Institute of Standards and Technology Act (15 U.S.C. 272(e)) is amended—
(1) by striking “and” after the semicolon in paragraph (21);
(2) by redesignating paragraph (22) as paragraph (23); and
(3) by inserting after paragraph (21) the following:
“(22) perform research to develop enhanced measurements, calibrations, standards, and technologies which will enable the reduced production in the United States of greenhouse gases associated with global warming, including carbon dioxide, methane, nitrous oxide, ozone, perfluorocarbons, hydrofluorocarbons, and sulfur hexafluoride; and”.

SEC. 107. DEVELOPMENT OF NEW MEASUREMENT TECHNOLOGIES.

The Secretary shall initiate a program to develop, with technical assistance from appropriate Federal agencies, innovative standards and measurement technologies (including technologies to measure carbon changes due to changes in land use cover) to calculate—
(1) greenhouse gas emissions and reductions from agriculture, forestry, and other land use practices;
(2) noncarbon dioxide greenhouse gas emissions from transportation;
(3) greenhouse gas emissions from facilities or sources using remote sensing technology; and
(4) any other greenhouse gas emission or reductions for which no accurate or reliable measurement technology exists.

SEC. 108. ENHANCED ENVIRONMENTAL MEASUREMENTS AND STANDARDS.

The National Institute of Standards and Technology Act (15 U.S.C. 271 et seq.) is amended—
(1) by redesignating sections 17 through 32 as sections 18 through 33, respectively; and
(2) by inserting after section 16 the following:

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SEC. 17. CLIMATE CHANGE STANDARDS AND PROCESSES.
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(a) In General.—The Director shall establish within the Institute a program to perform and support research on global climate change standards and processes, with the goal of providing scientific and technical knowledge applicable to the reduction of greenhouse gases (as defined in section 3(8) of the Climate Stewardship Act of 2003).

(b) Research Program.—
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(1) In General.—The Director is authorized to conduct, directly or through contracts or grants, a global climate change standards and processes research program.
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“(2) Research projects.—The specific contents and priorities of the research program shall be determined in consultation with appropriate Federal agencies, including the Environmental Protection Agency, the National Oceanic and Atmospheric Administration, and the National Aeronautics and Space Administration. The program generally shall include basic and applied research—

“(A) to develop and provide the enhanced measurements, calibrations, data, models, and reference material standards which will enable the monitoring of greenhouse gases;

“(B) to assist in establishing a baseline reference point for future trading in greenhouse gases and the measurement of progress in emissions reduction;

“(C) that will be exchanged internationally as scientific or technical information which has the stated purpose of developing mutually recognized measurements, standards, and procedures for reducing greenhouse gases; and

“(D) to assist in developing improved industrial processes designed to reduce or eliminate greenhouse gases.

“(c) National Measurement Laboratories.—
“(1) IN GENERAL.—In carrying out this section, the Director shall utilize the collective skills of the National Measurement Laboratories of the National Institute of Standards and Technology to improve the accuracy of measurements that will permit better understanding and control of these industrial chemical processes and result in the reduction or elimination of greenhouse gases.

“(2) MATERIAL, PROCESS, AND BUILDING RESEARCH.—The National Measurement Laboratories shall conduct research under this subsection that includes—

“(A) developing material and manufacturing processes which are designed for energy efficiency and reduced greenhouse gas emissions into the environment;

“(B) developing environmentally-friendly, ‘green’ chemical processes to be used by industry; and

“(C) enhancing building performance with a focus in developing standards or tools which will help incorporate low- or no-emission technologies into building designs.

“(3) STANDARDS AND TOOLS.—The National Measurement Laboratories shall develop standards
and tools under this subsection that include software to assist designers in selecting alternate building materials, performance data on materials, artificial intelligence-aided design procedures for building subsystems and ‘smart buildings’, and improved test methods and rating procedures for evaluating the energy performance of residential and commercial appliances and products.

“(d) NATIONAL VOLUNTARY LABORATORY ACCREDITATION PROGRAM.—The Director shall utilize the National Voluntary Laboratory Accreditation Program under this section to establish a program to include specific calibration or test standards and related methods and protocols assembled to satisfy the unique needs for accreditation in measuring the production of greenhouse gases. In carrying out this subsection the Director may cooperate with other departments and agencies of the Federal Government, State and local governments, and private organizations.”.

SEC. 109. TECHNOLOGY DEVELOPMENT AND DIFFUSION.

The Director of the National Institute of Standards and Technology, through the Manufacturing Extension Partnership Program, may develop a program to support the implementation of new “green” manufacturing tech-
nologies and techniques by the more than 380,000 small manufacturers.

**TITLE II—NATIONAL GREENHOUSE GAS DATABASE**

**SEC. 201. NATIONAL GREENHOUSE GAS DATABASE AND REGISTRY ESTABLISHED.**

(a) Establishment.—As soon as practicable after the date of enactment of this Act, the Administrator, in coordination with the Secretary, the Secretary of Energy, the Secretary of Agriculture, and private sector and non-governmental organizations, shall establish, operate, and maintain a database, to be known as the “National Greenhouse Gas Database”, to collect, verify, and analyze information on greenhouse gas emissions by entities.

(b) National Greenhouse Gas Database Components.—The database shall consist of—

(1) an inventory of greenhouse gas emissions; and

(2) a registry of greenhouse gas emission reductions and increases in greenhouse gas sequestrations.

(c) Comprehensive System.—

(1) In general.—Not later than 2 years after the date of enactment of this Act, the Administrator shall promulgate regulations to implement a com-
prehensive system for greenhouse gas emissions re-
reporting, inventoring, and reductions registration.

(2) REQUIREMENTS.—The Administrator shall
ensure, to the maximum extent practicable, that—

(A) the comprehensive system described in
paragraph (1) is designed to—

(i) maximize completeness, trans-
parency, and accuracy of information re-
ported; and

(ii) minimize costs incurred by entities
in measuring and reporting greenhouse gas
emissions; and

(B) the regulations promulgated under
paragraph (1) establish procedures and proto-
cols necessary—

(i) to prevent the reporting of some or
all of the same greenhouse gas emissions
or emission reductions by more than 1 re-
porting entity;

(ii) to provide for corrections to errors
in data submitted to the database;

(iii) to provide for adjustment to data
by reporting entities that have had a sig-
nificant organizational change (including
mergers, acquisitions, and divestiture), in
order to maintain comparability among data in the database over time;

(iv) to provide for adjustments to reflect new technologies or methods for measuring or calculating greenhouse gas emissions;

(v) to account for changes in registration of ownership of emission reductions resulting from a voluntary private transaction between reporting entities; and

(vi) to clarify the responsibility for reporting in the case of any facility owned or controlled by more than 1 entity.

(3) SERIAL NUMBERS.—Through regulations promulgated under paragraph (1), the Administrator shall develop and implement a system that provides—

(A) for the verification of submitted emissions reductions;

(B) for the provision of unique serial numbers to identify the verified emission reductions made by an entity relative to the baseline of the entity; and

(C) for the tracking of the reductions associated with the serial numbers.
SEC. 202. INVENTORY OF GREENHOUSE GAS EMISSIONS FOR COVERED ENTITIES.

(a) In General.—Not later than July 1st of each calendar year after 2008, a covered entity shall submit to the Administrator a report that describes, for the preceding calendar year, the entity-wide greenhouse gas emissions (as reported at the facility level), including—

(1) the total quantity of direct greenhouse gas emissions from stationary sources, expressed in units of carbon dioxide equivalence;

(2) the amount of petroleum products sold or imported and the amount of greenhouse gases, expressed in carbon dioxide equivalents, that would be produced when these products are used for transportation; and

(3) such other categories of emissions as the Administrator determines in the regulations promulgated under section 201(e)(1) may be practicable and useful for the purposes of this Act, such as—

(A) indirect emissions from imported electricity, heat, and steam;

(B) process and fugitive emissions; and

(C) production or importation of greenhouse gases.
(b) COLLECTION AND ANALYSIS OF DATA.—The Administrator shall collect and analyze information reported under subsection (a) for use under title III.

SEC. 203. GREENHOUSE GAS REDUCTION REPORTING.

(a) IN GENERAL.—Subject to the requirements described in subsection (b)—

(1) a covered entity may register greenhouse gas emission reductions achieved after 1990 and before 2010 under this section; and

(2) an entity that is not a covered entity may register greenhouse gas emission reductions achieved at any time since 1990 under this section.

(b) REQUIREMENTS.—

(1) IN GENERAL.—The requirements referred to in subsection (a) are that an entity (other than an entity described in paragraph (2)) shall—

(A) establish a baseline; and

(B) submit the report described in subsection (c)(1).

(2) REQUIREMENTS APPLICABLE TO ENTITIES ENTERING INTO CERTAIN AGREEMENTS.—An entity that enters into an agreement with a participant in the registry for the purpose of a carbon sequestration project shall not be required to comply with the requirements specified in paragraph (1) unless that
entity is required to comply with the requirements by reason of an activity other than the agreement.

(c) Reports.—

(1) Required report.—Not later than July 1st of the each calendar year beginning more than 2 years after the date of enactment of this Act, but subject to paragraph (3), an entity described in subsection (a) shall submit to the Administrator a report that describes, for the preceding calendar year, the entity-wide greenhouse gas emissions (as reported at the facility level), including—

(A) the total quantity of direct greenhouse gas emissions from stationary sources, expressed in units of carbon dioxide equivalence;

(B) the amount of petroleum products sold or imported and the amount of greenhouse gases, expressed in carbon dioxide equivalents, that would be produced when these products are used by vehicles; and

(C) such other categories of emissions as the Administrator determines in the regulations promulgated under section 201(c)(1) may be practicable and useful for the purposes of this Act, such as—
(i) indirect emissions from imported electricity, heat, and steam;

(ii) process and fugitive emissions;

and

(iii) production or importation of greenhouse gases.

(2) VOLUNTARY REPORTING.—An entity described in subsection (a) may (along with establishing a baseline and reporting emissions under this section)—

(A) submit a report described in paragraph (1) before the date specified in that paragraph for the purposes of achieving and commoditizing greenhouse gas reductions through use of the registry; and

(B) submit to the Administrator, for inclusion in the registry, information that has been verified in accordance with regulations promulgated under section 201(c)(1) and that relates to—

(i) any entity-wide greenhouse gas emission reductions activities of the entity that were carried out during or after 1990 and before the establishment of the National Greenhouse Gas Database, verified
in accordance with regulations promul-
gated under section 201(c)(1), and sub-
mitted to the Administrator before the
date that is 4 years after the date of enact-
ment of this Act; and

(ii) with respect to the calendar year
preceding the calendar year in which the
information is submitted, any project or
activity that results in an entity-wide re-
duction of greenhouse gas emissions or an
increase in net sequestration of a green-
house gas that is carried out by the entity.

(3) Provision of verification information
by reporting entities.—Each entity that submits
a report under this subsection shall provide informa-
tion sufficient for the Administrator to verify, in ac-
cordance with measurement and verification methods
and standards developed under section 203, that the
greenhouse gas report of the reporting entity—

(A) has been accurately reported; and

(B) in the case of each voluntary report
under paragraph (2), represents—

(i) actual reductions in direct green-
house gas emissions—
(I) relative to historic emission levels of the entity; and

(II) after accounting for any increases in indirect emissions described in paragraph (1)(C)(i); or

(ii) actual increases in net sequestration.

(4) Failure to submit report.—An entity that participates or has participated in the registry and that fails to submit a report required under this subsection shall be prohibited from using, or allowing another entity to use, its registered emissions reductions or increases in sequestration to satisfy the requirements of section 311.

(5) Independent third-party verification.—To meet the requirements of this section and section 203, an entity that is required to submit a report under this section may—

(A) obtain independent third-party verification; and

(B) present the results of the third-party verification to the Administrator.

(6) Availability of data.—
A) IN GENERAL.—The Administrator shall ensure that information in the database is—

(i) published; and

(ii) accessible to the public, including in electronic format on the Internet.

B) EXCEPTION.—Subparagraph (A) shall not apply in any case in which the Administrator determines that publishing or otherwise making available information described in that subparagraph poses a risk to national security.

7) DATA INFRASTRUCTURE.—The Administrator shall ensure, to the maximum extent practicable, that the database uses, and is integrated with, Federal, State, and regional greenhouse gas data collection and reporting systems in effect as of the date of enactment of this Act.

8) ADDITIONAL ISSUES TO BE CONSIDERED.—In promulgating the regulations under section 201(c)(1) and implementing the database, the Administrator shall take into consideration a broad range of issues involved in establishing an effective database, including—

(A) the appropriate allowances for reporting each greenhouse gas;
(B) the data and information systems and measures necessary to identify, track, and verify greenhouse gas emissions in a manner that will encourage private sector trading and exchanges;

(C) the greenhouse gas reduction and sequestration methods and standards applied in other countries, as applicable or relevant;

(D) the extent to which available fossil fuels, greenhouse gas emissions, and greenhouse gas production and importation data are adequate to implement the database; and

(E) the differences in, and potential uniqueness of, the facilities, operations, and business and other relevant practices of persons and entities in the private and public sectors that may be expected to participate in the database.

(d) ANNUAL REPORT.—The Administrator shall publish an annual report that—

(1) describes the total greenhouse gas emissions and emission reductions reported to the database during the year covered by the report;
(2) provides entity-by-entity and sector-by-sector analyses of the emissions and emission reductions reported;

(3) describes the atmospheric concentrations of greenhouse gases; and

(4) provides a comparison of current and past atmospheric concentrations of greenhouse gases.

SEC. 204. MEASUREMENT AND VERIFICATION.

(a) Standards.—

(1) In general.—Not later than 1 year after the date of enactment of this Act, the Secretary shall develop comprehensive measurement and verification methods and standards to ensure a consistent and technically accurate record of greenhouse gas emissions, emission reductions, sequestration, and atmospheric concentrations for use in the registry.

(2) Requirements.—The development of methods and standards under paragraph (1) shall include—

(A) a requirement that a covered entity use a continuous emissions monitoring system, or another system of measuring or estimating emissions that is determined by the Secretary to provide information with the same precision,
reliability, accessibility, and timeliness as a continuous emissions monitoring system provides;

(B) establishment of standardized measurement and verification practices for reports made by all entities participating in the registry, taking into account—

(i) protocols and standards in use by entities desiring to participate in the registry as of the date of development of the methods and standards under paragraph (1);

(ii) boundary issues, such as leakage and shifted use;

(iii) avoidance of double counting of greenhouse gas emissions and emission reductions;

(iv) protocols to prevent a covered entity from avoiding the requirements of this Act by reorganization into multiple entities that are under common control; and

(v) such other factors as the Secretary, in consultation with the Administrator, determines to be appropriate;

(C) establishment of measurement and verification standards applicable to actions
taken to reduce, avoid, or sequester greenhouse gas emissions;

(D) in coordination with the Secretary of Agriculture, standards to measure the results of the use of carbon sequestration and carbon re-capture technologies, including—

(i) organic soil carbon sequestration practices; and

(ii) forest preservation and reforestation activities that adequately address the issues of permanence, leakage, and verification;

(E) establishment of such other measurement and verification standards as the Secretary, in consultation with the Secretary of Agriculture, the Administrator, and the Secretary of Energy, determines to be appropriate;

(F) establishment of standards for obtaining the Secretary’s approval of the suitability of geological storage sites that include evaluation of both the geology of the site and the entity’s capacity to manage the site; and

(G) establishment of other features that, as determined by the Secretary, will allow enti-
ties to adequately establish a fair and reliable measurement and reporting system.

(b) REVIEW AND REVISION.—The Secretary shall periodically review, and revise as necessary, the methods and standards developed under subsection (a).

(c) PUBLIC PARTICIPATION.—The Secretary shall—

(1) make available to the public for comment, in draft form and for a period of at least 90 days, the methods and standards developed under subsection (a); and

(2) after the 90-day period referred to in paragraph (1), in coordination with the Secretary of Energy, the Secretary of Agriculture, and the Administrator, adopt the methods and standards developed under subsection (a) for use in implementing the database.

(d) EXPERTS AND CONSULTANTS.—

(1) IN GENERAL.—The Secretary may obtain the services of experts and consultants in the private and nonprofit sectors in accordance with section 3109 of title 5, United States Code, in the areas of greenhouse gas measurement, certification, and emission trading.

(2) AVAILABLE ARRANGEMENTS.—In obtaining any service described in paragraph (1), the Sec-
retary may use any available grant, contract, cooperative agreement, or other arrangement authorized by law.

TITLE III—MARKET-DRIVEN GREENHOUSE GAS REDUCTIONS
Subtitle A—Emission Reduction Requirements; Use of Tradeable Allowances

SEC. 311. COVERED ENTITIES MUST SUBMIT ALLOWANCES FOR EMISSIONS.

(a) In General.—Beginning with calendar year 2010—

(1) each covered entity in the electric generation, industrial, and commercial sectors shall submit to the Administrator one tradeable allowance for every metric ton of greenhouse gases, measured in units of carbon dioxide equivalence, that it emits;

(2) producer or importer of hydrofluorocarbons, perfluorocarbons, or sulfur hexafluoride that is a covered entity shall submit to the Administrator one tradeable allowance for every metric ton of hydrofluorocarbons, perfluorocarbons, or sulfur hexafluoride it produces or imports, measured in units of carbon dioxide equivalence; and
(3) each petroleum refiner or importer that is a covered entity shall submit one tradeable allowance for every unit of petroleum product it sells that will produce one metric ton of greenhouse gases, measured in units of carbon dioxide equivalence, when used for transportation.

(b) Determination of Transportation Sector Amount.—For the transportation sector, the Administrator shall determine the amount of greenhouse gases, measured in units of carbon dioxide equivalence, that will be emitted when petroleum products are used for transportation.

(c) Exception for Certain Deposited Emissions.—Notwithstanding subsection (a), a covered entity is not required to submit a tradeable allowance for any amount of greenhouse gas that would otherwise have been emitted from a source under the ownership or control of that entity if—

(1) the emission is deposited in a geological storage facility approved by the Administrator under section 204(a)(2)(F); and

(2) the entity agrees to submit tradeable allowances for any portion of the deposited emission that is subsequently emitted from that facility.
SEC. 312. COMPLIANCE.

(a) IN GENERAL.—

(1) SOURCE OF TRADEABLE ALLOWANCES USED.—A covered entity may use a tradeable allowance to meet the requirements of this section without regard to whether the tradeable allowance was allocated to it under subtitle B or acquired from another entity or the Climate Change Credit Corporation established under section 351.

(2) VERIFICATION BY ADMINISTRATOR.—At various times during each year, the Administrator shall determine whether each covered entity has met the requirements of this section. In making that determination, the Administrator shall—

(A) take into account tradeable allowances allocated to, or acquired by, that covered entity; and

(B) retire the serial number assigned to each such tradeable allowance so used.

(b) ALTERNATIVE MEANS OF COMPLIANCE FROM 2010 THROUGH 2015.—For the years 2010, 2011, 2012, 2013, 2014, and 2015, a covered entity may satisfy 15 percent of its total allowance submission requirement under this section by—
(1) submitting tradeable allowances from another nation’s market in greenhouse gas emissions if—

(A) the Secretary certifies that the other nation’s system for trading in greenhouse gas emissions is complete, accurate, and transparent and reviews that determination at least once every 5 years;

(B) the other nation has adopted enforceable limits on its greenhouse gas emissions which the tradeable allowances were issued to implement; and

(C) the covered entity certifies that the tradeable allowance has been retired unused in the other nation’s market;

(2) submitting a registered net increase in sequestration, as registered in the National Greenhouse Gas Database established under section 201, adjusted, if necessary, to comply with the accounting standards and methods established under section 372;

(3) submitting a greenhouse gas emissions reduction (other than a registered net increase in sequestration) that was registered in the National
Greenhouse Gas Database by a person that is not a covered entity; or

(4) submitting credits obtained from the Administrator under section 314

(c) ALTERNATIVE MEANS OF COMPLIANCE AFTER 2015.—For years beginning after 2015, a covered entity may meet the requirements of this section by any means described in subsection (b), except that for the purpose of applying subsection (d) after 2015, “10 percent” shall be substituted for “15 percent”.

SEC. 313. TRADEABLE ALLOWANCES AND FUEL ECONOMY STANDARD CREDITS.

(a) IN GENERAL.—Section 32903 of title 49, United States Code, is amended by striking the second sentence of subsection (a) and inserting “The credits may be—

“(1) applied to any of the 3 model years immediately following the model year for which the credits are earned; or

“(2) if the average fuel economy of a manufacturer exceeds the fuel efficiency standards by more than 20 percent, sold to the registry established under section 201 of the Climate Stewardship Act of 2003.”.

(b) CONVERSION RATIO.—The Secretary of Transportation, in consultation with the Administrator, shall de-
termine the conversion factor to be used for purposes of
credits purchased from, or sold to, the registry established
under section 201 of this Act and fuel economy standard
credits under section 32903 of title 49, United States
Code.

(c) Reduction of Transportation Sector Allocation.—If any manufacturer sells credits under section
32903(a)(2) of title 49, United States Code, to the reg-
istry established under section 201 of this Act in any cal-
endar year, the amount of tradeable allowances allocated
to the transportation sector under section 311(b) for the
next calendar year, and the total allocation of tradeable
allowance available for allocation in the next calendar
year, shall be reduced by an amount equivalent to the sum
of the credits, measured in units of carbon dioxide equiva-
lents, sold to the registry by such manufacturers during
the preceding calendar year.

SEC. 314. BORROWING AGAINST FUTURE REDUCTIONS.

(a) IN GENERAL.—The Administrator shall establish
a program under which a covered entity may—

(1) receive a credit in the current calendar year
for anticipated reductions in emissions in a future
calendar year; and

(2) use the credit in lieu of a tradeable allow-
ance to meet the requirements of this Act for the
current calendar year, subject to the limitation im-
posed by section 312(b).

(b) Determination of Tradeable Allowance
Credits.—The Administrator may make credits available
under subsection (a) only for anticipated reductions in
emissions that—

(1) are attributable to the realization of capital
investments in equipment, the construction, recon-
struction, or acquisition of facilities, or the deploy-
ment of new technologies—

(A) for which the covered entity has exe-
cuted a binding contract and secured, or ap-
plied for, all necessary permits and operating or
implementation authority;

(B) that will not become operational within
the current calendar year; and

(C) that will become operational and begin
to reduce emissions from the covered source
within 5 years after the year in which the credit
is used; and

(2) will be realized within 5 years after the year
in which the credit is used.

(e) Carrying Cost.—If a covered entity uses a cred-
it under this section to meet the requirements of this Act
for a calendar year (referred to as the use year), the
tradeable allowance requirement for the year from which
the credit was taken (referred to as the source year) shall
be increased by an amount equal to—

(1) 10 percent for each credit borrowed from
the source year; multiplied by

(2) the number of years beginning after the use
year and before the source year.

(d) MAXIMUM BORROWING PERIOD.—A credit from
a year beginning more than 5 years after the current year
may not be used to meet the requirements of this Act for
the current year.

(e) FAILURE TO ACHIEVE REDUCTIONS GENER-
ATING CREDIT.—If a covered entity that uses a credit
under this section fails to achieve the anticipated reduc-
tion for which the credit was granted for the year from
which the credit was taken, then—

(1) the covered entity’s requirements under this
Act for that year shall be increased by the amount
of the credit, plus the amount determined under
subsection (c);

(2) any tradeable allowances submitted by the
covered entity for that year shall be counted first
against the increase in those requirements; and
(3) the covered entity may not use credits under this section to meet the increased requirements.

SEC. 315. OTHER USES OF TRADEABLE ALLOWANCES.

(a) IN GENERAL.—Tradeable allowances may be sold, exchanged, purchased, retired, or used as provided in this section.

(b) INTERSECTOR TRADING.—Covered entities may purchase or otherwise acquire tradeable allowances from other covered sectors to satisfy the requirements of section 311.

(c) CLIMATE CHANGE CREDIT ORGANIZATION.—The Climate Change Credit Corporation established under section 351 may sell tradeable allowances allocated to it under section 332(a)(2) to any covered entity or to any investor, broker, or dealer in such tradeable allowances. The Climate Change Credit Corporation shall use all proceeds from such sales in accordance with the provisions of section 352.

(d) BANKING OF TRADEABLE ALLOWANCES.—Notwithstanding the requirements of section 311, a covered entity that has more than a sufficient amount of tradeable allowances to satisfy the requirements of section 311, may refrain from submitting a tradeable allowance to satisfy
the requirements in order to sell, exchange, or use the
tradeable allowance in the future.

SEC. 316. EXEMPTION OF SOURCE CATEGORIES.

(a) IN GENERAL.—The Administrator may grant an
exemption from the requirements of this Act to a source
category if the Administrator determines, after public no-
tice and comment, that it is not feasible to measure or
estimate emissions from that source category.

(b) REDUCTION OF LIMITATIONS.—If the Adminis-
trator exempts a source category under subsection (a), the
Administrator shall also reduce the total tradeable allow-
ances under section 321(a) as follows:

(1) 2010 LIMITATION.—For the tradeable al-
lowances under section 311(a)(1), the Administrator
shall reduce the total by the amount of greenhouse
gas emissions that the exempted source category
emitted in calendar year 2000, as identified in the
2000 Inventory.

(2) 2016 LIMITATION.—For the tradeable al-
lowances under subsection 311(a)(2), the Adminis-
trator shall reduce the total by the amount of green-
house gas emissions that the exempted source cat-
egory emitted in calendar year 1990, as identified in
the 1990 Inventory.
(c) LIMITATION ON EXEMPTION.—The Administrator may not grant an exemption under subsection (a) to carbon dioxide produced from fossil fuel.

Subtitle B—Establishment and Allocation of Tradeable Allowances

SEC. 331. ESTABLISHMENT OF TRADEABLE ALLOWANCES.

(a) IN GENERAL.—The Administrator shall promulgate regulations to establish tradeable allowances, denominated in units of carbon dioxide equivalence—

(1) for calendar years beginning after 2009 and before 2016, equal to—

(A) 5896 million metric tons, measured in units of carbon dioxide equivalence, reduced by

(B) the amount of emissions of greenhouse gases in calendar year 2000 from non-covered entities; and

(2) for calendar years beginning after 2015, equal to—

(A) 5123 million metric tons, measured in units of carbon dioxide equivalence, reduced by

(B) the amount of emissions of greenhouse gases in calendar year 1990 from non-covered entities.

(b) SERIAL NUMBERS.—The Administrator shall assign a unique serial number to each tradeable allowance
established under subsection (a), and shall take such ac-
tion as may be necessary to prevent counterfeiting of
tradeable allowances.

(c) Nature of Tradeable Allowances.—A
tradeable allowance is not a property right, and nothing
in this title or any other provision of law limits the author-
ity of the United States to terminate or limit a tradeable
allowance.

(d) Non-Covered Entity.—In this section:

(1) In General.—The term “non-covered enti-
ty” means an entity that—

(A) owns or controls a source of green-
house gas emissions in the electric power, in-
dustrial, or commercial sectors of the United
States economy (as defined in the Inventory),
refines or imports petroleum products for use in
transportation, or produces or imports
hydrofluorocarbons, perfluorocarbons, or sulfur
hexafluoride; and

(B) is not a covered entity, determined by
applying the definition in section 3(4) for the
year 2000 (for the purpose of subsection
(a)(1)(B)) or the year 1990 (for the purpose of
subsection (a)(2)(B)).
(2) Exception.—Notwithstanding paragraph (1), an entity that is a covered entity for any calendar year beginning after 2009 shall not be considered to be a non-covered entity for the purpose of either subsection (a)(1)(B) or subsection (a)(2)(B) only because it emitted, or its products would have emitted, 10,000 metric tons or less of greenhouse gas, measured in units of carbon dioxide equivalence, in the year 2000 or 1990, respectively.

SEC. 332. DETERMINATION OF TRADEABLE ALLOWANCE ALLOCATIONS.

(a) In General.—The Secretary shall determine—

(1) the amount of tradeable allowances to be allocated to each covered sector of that sector’s Phase I and Phase II allotments; and

(2) the amount of tradeable allowances to be allocated to the Climate Change Credit Corporation established under section 351.

(b) Allocation Factors.—In making the determination required by subsection (a), the Secretary shall consider—

(1) the distributive effect of the allocations on household income and net worth of individuals;

(2) the impact of the allocations on corporate income, taxes, and asset value;
(3) the impact of the allocations on income levels of consumers and on their energy consumption;

(4) the effects of the allocations in terms of economic efficiency;

(5) the ability of covered entities to pass through compliance costs to their customers; and

(6) the degree to which the amount of allocations to the covered sectors should decrease over time.

(c) ALLOCATION RECOMMENDATIONS AND IMPLEMENTATION.—Before allocating or providing tradeable allowances under subsection (a) and within 24 months after the date of enactment of this Act, the Secretary shall submit the determinations under subsection (a) to the Senate Committee on Commerce, Science, and Transportation, the Senate Committee on Environment and Public Works, the House of Representatives Committee on Science, and the House of Representatives Committee on Energy and Commerce. The Secretary’s determinations under paragraph (1), including the allocations and provision of tradeable allowances pursuant to that determination, are deemed to be a major rule (as defined in section 804(2) of title 5, United States Code), and subject to the provisions of chapter 8 of that title.
SEC. 333. ALLOCATION OF TRADEABLE ALLOWANCES.

(a) In General.—Beginning with calendar year 2010 and after taking into account any initial allocations under section 334, the Administrator shall—

(1) allocate to each covered sector that sector’s Phase I and Phase II allotments determined by the Administrator under section 332 (adjusted for any such initial allocations and the allocation to the Climate Change Credit Corporation established under section 351); and

(2) allocate to the Climate Change Credit Corporation established under section 351 the tradeable allowances allocable to that Corporation.

(b) Intrasectorial Allocations.—The Administrator shall, by regulation, establish a process for the allocation of tradeable allowances under this section, without cost to facilities within each sector, that will—

(1) encourage investments that increase the efficiency of the processes that produce greenhouse gas emissions;

(2) minimize the costs to the government of allocating the tradeable allowances;

(3) not penalize a covered entity for registered emissions reductions made before 2010; and

(4) provide sufficient allocation for new entrants into the sector.
(c) **Point Source Allocation.**—The Administrator shall allocate the tradeable allowances for the electricity generation, industrial, and commercial sectors to the entities owning or controlling the point sources of greenhouse gas emissions within that sector.

(d) **Hydrofluorocarbons, Perfluorocarbons, and Sulfur Hexafluoride.**—The Administrator shall allocate the tradeable allowances for producers or importers of hydrofluorocarbons, perfluorocarbons, or sulfur hexafluoride one tradeable allowance for every metric ton of hydrofluorocarbons, perfluorocarbons, or sulfur hexafluoride produced or imported, measured in units of carbon dioxide equivalence.

(e) **Special Rule for Allocation Within the Transportation Sector.**—The Administrator shall allocate the tradeable allowances for the transportation sector to petroleum refiners or importers that produce or import petroleum products that will be used as fuel for transportation.

**SEC. 334. Initial Allocations for Early Participation and Accelerated Participation.**

Before making any allocations under section 333, the Administrator shall allocate—

1. to any covered entity an amount of tradeable allowances equivalent to the amount of
greenhouse gas emissions reductions registered by that covered entity in the national greenhouse gas database if—

(A) the covered entity has requested to use the registered reduction in the year of allocation;

(B) the reduction was registered prior to 2010; and

(C) the Administrator retires the unique serial number assigned to the reduction under section 201(c)(3); and

(2) to any covered entity that has entered into an accelerated participation agreement under section 335, such tradeable allowances as the Administrator has determined to be appropriate under that section.

SEC. 335. BONUS FOR ACCELERATED PARTICIPATION.

(a) IN GENERAL.—If a covered entity executes an agreement with the Administrator under which it agrees to reduce its level of greenhouse gas emissions to a level no greater than the level of its greenhouse gas emissions for calendar year 1990 by the year 2010, then, for the 6-year period beginning with calendar year 2010, the Administrator shall—

(1) provide additional tradeable allowances to that entity when allocating allowances under section
334 in order to recognize the additional emissions
reductions that will be required of the covered entity;

(2) allow that entity to satisfy 20 percent of its
requirements under section 311 by—

(A) submitting tradeable allowances from
another nation’s market in greenhouse gas
emissions under the conditions described in sec-

(B) submitting a registered net increase in
sequestration, as registered in the National
Greenhouse Gas Database established under
section 201, and as adjusted by the appropriate
sequestration discount rate established under
section 372; or

(C) submitting a greenhouse gas emission
reduction (other than a registered net increase
in sequestration) that was registered in the Na-
tional Greenhouse Gas Database by a person
that is not a covered entity.

(b) TERMINATION.—An entity that executes an
agreement described in subsection (a) may terminate the
agreement at any time.

(e) FAILURE TO MEET COMMITMENT.—If an entity
that executes an agreement described in subsection (a)
fails to achieve the level of emissions to which it committed by calendar year 2010—

(1) its requirements under section 311 shall be increased by the amount of any tradeable allowances provided to it under subsection (a)(1); and

(2) any tradeable allowances submitted thereafter shall be counted first against the increase in those requirements.

SEC. 336. ENSURING TARGET ADEQUACY.

(a) IN GENERAL.—Beginning 2 years after the date of enactment of this Act, the Under Secretary of Commerce for Oceans and Atmosphere shall review the allowances established by subsection (a) no less frequently than biennially—

(1) to re-evaluate the levels established by that subsection, after taking into account the best available science and the most currently available data, and

(2) to re-evaluate the environmental and public health impacts of specific concentration levels of greenhouse gases, to determine whether the allowances established by subsection (a) continue to be consistent with the objective of the United Nations’ Framework Convention on Climate Change of stabilizing levels of greenhouse gas emissions
at a level that will prevent dangerous anthropogenic interference with the climate system.

(b) **REVIEW OF 2010 AND 2016 LEVELS.**—The Under Secretary shall specifically review in 2008 the level established under section 311(a)(1) and, in 2012, the level established under section 311(a)(2), and transmit a report on his reviews, together with any recommendations, including legislative recommendations, for modification of the levels, to the Senate Committee on Commerce, Science, and Transportation, the Senate Committee on Environment and Public Works, the House of Representatives Committee on Science, and the House of Representatives Committee on Energy and Commerce.

**Subtitle C—Climate Change Credit Corporation**

**SEC. 351. ESTABLISHMENT.**

(a) **IN GENERAL.**—The Climate Change Credit Corporation is established as a nonprofit corporation without stock. The Corporation shall not be considered to be an agency or establishment of the United States Government.

(b) **APPLICABLE LAWS.**—The Corporation shall be subject to the provisions of this title and, to the extent consistent with this title, to the District of Columbia Business Corporation Act.
(c) Board of Directors.—The Corporation shall have a board of directors of 5 individuals who are citizens of the United States, of whom 1 shall be elected annually by the board to serve as chairman. No more than 3 members of the board serving at any time may be affiliated with the same political party. The members of the board shall be appointed by the President of the United States, by and with the advice and consent of the Senate and shall serve for terms of 5 years.

SEC. 352. PURPOSES AND FUNCTIONS.

(a) Trading.—The Corporation—

(1) shall receive and manage tradeable allowances allocated to it under section 333(a)(2); and

(2) shall buy and sell tradeable allowances, whether allocated to it under that section or obtained by purchase, trade, or donation from other entities; but

(3) may not retire tradeable allowances unused.

(b) Use of Tradeable Allowances and Proceeds.—

(1) In General.—The Corporation shall use the tradeable allowances, and proceeds derived from its trading activities in tradeable allowances, to reduce costs borne by consumers as a result of the
greenhouse gas reduction requirements of this Act.

The reductions—

(A) may be obtained by buy-down, subsidy, negotiation of discounts, consumer rebates, or otherwise;

(B) shall be, as nearly as possible, equitably distributed across all regions of the United States; and

(C) may include arrangements for preferential treatment to consumers who can least afford any such increased costs.

(2) TRANSITION ASSISTANCE TO DISLOCATED WORKERS AND COMMUNITIES.—The Corporation shall allocate a percentage of the proceeds derived from its trading activities in tradeable allowances to provide transition assistance to dislocated workers and communities. Transition assistance may take the form of—

(A) grants to employers, employer associations, and representatives of employees—

(i) to provide training, adjustment assistance, and employment services to dislocated workers; and
(ii) to make income-maintenance and needs-related payments to dislocated workers; and

(B) grants to State and local governments to assist communities in attracting new employers or providing essential local government services.

(3) PHASE-OUT OF TRANSITION ASSISTANCE.— The percentage allocated by the Corporation under paragraph (2)—

(A) shall be 20 percent for 2010;

(B) shall be reduced by 2 percentage points each year thereafter; and

(C) may not be reduced below zero.

(c) ANNUAL REPORT.—The Corporation shall issue an annual report setting forth the results of its operations for the year.

Subtitle D—Sequestration Accounting; Penalties

SEC. 371. SEQUESTRATION ACCOUNTING.

(a) Sequestration Accounting.—If a covered entity uses a registered net increase in sequestration to satisfy the requirements of section 311 for any year, that covered entity shall submit information to the Administrator every 5 years thereafter sufficient to allow the Ad-
ministrator to determine, using the methods and standards created under section 204, whether that net increase in sequestration still exists. Unless the Administrator determines that the net increase in sequestration continues to exist, the covered entity shall offset any loss of sequestration by submitting additional tradeable allowances of equivalent amount in the calendar year following that determination.

(b) REGULATIONS REQUIRED.—The Secretary, acting through the Under Secretary of Commerce for Science and Technology, in coordination with the Secretary of Agriculture, the Secretary of Energy, and the Administrator, shall issue regulations establishing the sequestration accounting rules for all classes of sequestration projects.

(c) CRITERIA FOR REGULATIONS.—In issuing regulations under this section, the Secretary shall use the following criteria:

(1) If the range of possible amounts of net increase in sequestration for a particular class of sequestration project is not more than 10 percent of the median of that range, the amount of sequestration awarded shall be equal to the median value of that range.

(2) If the range of possible amounts of net increase in sequestration for a particular class of se-
questration project is more than 10 percent of the median of that range, the amount of sequestration awarded shall be equal to the fifth percentile of that range.

(3) The regulations shall include procedures for accounting for potential leakage from sequestration projects and for ensuring that any registered increase in sequestration is in addition that which would have occurred if this Act had not been enacted.

(d) UPDATES.—The Secretary shall update the sequestration accounting rules for every class of sequestration project at least once every 5 years.

SEC. 372. PENALTIES.

Any covered entity that fails to meet the requirements of section 311 for a year shall be liable for a civil penalty, payable to the Administrator, equal to thrice the market value (determined as of the last day of the year at issue) of the tradeable allowances that would be necessary for that covered entity to meet those requirements on the date of the emission that resulted in the violation.