Overview of Western Climate Initiative
Final Design Recommendations
Western Climate Initiative

Map showing Western Climate Initiative partners and observers. Each state or province has information on GDP, population, and largest city.

- **Manitoba**: GDP 15,360 million CAD, Population 1,309,710, Largest City: Winnipeg
- **Ontario**: GDP 923,019 million CAD, Population 12,800,900, Largest City: Toronto
- **British Columbia**: GDP 292,134 million CAD, Population 4,800,900, Largest City: Vancouver
- **Quebec**: GDP 266,137 million CAD, Population 7,708,500, Largest City: Montreal
- **Washington**: GDP 311,270 million USD, Population 6,686,414, Largest City: Seattle
- **Montana**: GDP 29,230 million USD, Population 957,861, Largest City: Helena
- **Oregon**: GDP 218,328 million USD, Population 3,471,435, Largest City: Portland
- **Utah**: GDP 109,808 million USD, Population 2,443,840, Largest City: Salt Lake City
- **New Mexico**: GDP 75,778 million USD, Population 2,969,913, Largest City: Albuquerque
- **California**: GDP 1,813,945 million USD, Population 36,593,115, Largest City: Los Angeles
- **Arizona**: GDP 247,028 million USD, Population 6,388,715, Largest City: Phoenix

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All figures for 2007
Source for US data: US Census Bureau and US Bureau of Economic Analysis
Source for Canadian data: Statistics Canada
Initiative Collaboration Includes

Joint work to:
- Promote clean and renewable energy in the region
- Increase energy efficiency
- Advocate for regional and national climate policies that are in the interest of western states
- Identify measures to adapt to climate change impact

Three specific directives:
- Set a regional emissions reduction goal
- Join a multi-state registry to track, manage and credit reductions
- Design a regional multi-sector market-based mechanism
Cap and Trade Design Principles

- Equitable, administratively simple, clear compliance path
- Maximize total benefits and avoid localized or disproportionate environmental or economic impacts
- Advance economic, environmental, and public health objectives;
- Real, verifiable, enforceable reductions
- Stimulate investment and reward innovations
- Encourage reductions beyond capped sectors/sources
- Recognition/incentives for early reductions
- Transparent and robust accounting system
- Minimize potential for leakage
- Facilitate links to other systems
WCI Organization

• Partner Jurisdiction Program Design Team
• Subcommittees
  – Allocation
  – Electricity
  – Offsets
  – Scope
  – Reporting
• Economic Modeling Team
• Legal Group
**WCI Design**

- Most expansive cap and trade program designed to date
  - Regional Greenhouse Gas Initiative (RGGI) = CO2 from electricity only
  - EU ETS = CO2 from electricity, industrial combustion and process emissions

- Will cover nearly 90% of the region’s emissions by 2015
  - RGGI = ~28% of emissions
  - EU ETS = ~40% of emissions
Economic Modeling Results

• Possible to meet regional goal with overall modest savings
• Complementary policies get us about $\frac{1}{2}$ way to target
  – CA tailpipe standards
  – 1% reduction in demand for electricity and gas
  – 2% reduction in VMT
• Offsets and banking reduce allowance prices
• Including more sources also reduces prices
What the design is and isn’t

• It is
  – the Policy framework
  – what must be the same between jurisdictions for this regional program

• It isn’t
  – the specific details; they will come through legislative and rule processes
What has to be the same

• Basic reporting requirements
• Sectors, gases and thresholds (generally)
• Points of regulation
• Quantification methods
• Setting regional caps
• Establishing partner budgets
• Compliance periods; banking; borrowing
What has to be the same

- Early reductions allowance (ERA) criteria
- Maximum offset credits allowed
- Offset criteria and protocols
- Auction design and implementation
- Linkage with other systems
- Participation in regional administrative organization
What can be different

• Allocation of allowances within states and provinces
  – May standardize between sectors/jurisdictions
• Maximum percent of allowances auctioned
• Minimum offset credits allowed
• Allowance set-asides
• Recognition of early reductions (other than ERA)
**Design Recommendations**

- Comprehensive
  - All 6 primary greenhouse gases
  - All major sources
    - Large industrial combustion and process emissions (2012)
    - Electricity (2012)
    - Transportation, Residential and Industrial Fuels below threshold (2015)
- CO2 from biomass and biofuels exempt except for reporting
- Program starts in 2012; reporting in 2011
  - WA reporting starts in 2010 for 2009 emissions
More Design Recommendations

• Threshold
  – 25,000 metric tons annually for inclusion in the program
  – 10,000 metric tons annually for reporting

• Compliance flexibility
  – Offsets
  – Banking (no borrowing)
  – Early Reduction Allowances (ERA)
  – Three year compliance periods
  – Allowances from other cap and trade systems
Offsets

• Focus on quality
  – Real, surplus/additional, verifiable, permanent
• Limited to 49% of reduction
  – Majority of reductions from capped sectors
• Each jurisdiction may have lower limits
• No limit on location
• Protocols will be jointly developed or modified
• Priority project types include forestry and agriculture
Offsets
An illustration

2012 Program Cap
Declining Annual Program Caps
2020 Program Cap

49%: Maximum use of offsets and other allowances
51%: Minimum reduction from covered sources

2012
2020

Million Metric Tons of CO2e

Years
More Design Recommendations

• Regional Cap
  – Annual caps set before program begins
  – 2012 cap = Based on best estimate of expected emissions
    • Reported emissions
    • Population and economic growth
  – 2015 cap = Add best estimate from transportation and residential, commercial and industrial fuels below threshold
  – 2020 cap = Regional goal (1990 levels for WA)
More Design Recommendations

- Partner budgets (Apportionment) based on
  - Each partner’s reduction goal
  - Estimate of actual emissions from covered sources using population, economic growth, expected emission changes
- Reporting data (less in 2012; more in 2015 and 2018)
- One time 2012 adjustment
  - Each jurisdiction contributes 1% of 2012 budget
  - Distribution of adjustment to based on
    - Production and consumption of electricity
    - Population and economic growth
    - Share of the total emissions between 2001 and 2005
More Design Recommendations

• 10% minimum auction in 2012; increases over time
  • Half with reserve price to manage any over-allocation
• Value should be used for WCI-wide benefits:
  • Energy efficiency and renewable energy incentives and achievement
  • Research, development, demonstration and deployment
  • Promoting emission reductions and sequestration in agriculture, forestry, other uncapped sources
• Distribution of remainder up to individual partners
• May be standardized to address competition
More Design Recommendations

• Early Reduction Allowances (ERA)
  – For certain reductions between 1/1/08 and 1/1/12
  – On top of individual partner budgets
  – Issued in 2012 only

• Recognition for other reductions or set aside allowances for specific uses
  – Will come from the individual partner budget

• Enforcement
  – True up by July 1 after end of each compliance period
  – Three tons for every one ton short
  – Other enforcement authorities of partners
More Design Recommendations

• Regional administrative organization
  – Reduce costs
  – Improve program transparency and consistency in
    • Administrative functions
    • Market monitoring
    • Conducting auctions
    • Reviewing and adopting offset and reporting protocols
    • Coordinating review and issuance of offset credits
  – States and provinces retain authority
Path Forward

• Deliver legislation 12/1/08
  • Meeting with stakeholders
• First jurisdictional deliverer
  • Working with utilities
• Develop 2009 work plan, including
  • Early Reduction Allowance criteria
  • Developing offset protocols and project types
  • Setting regional cap and partner budgets
  • Reporting essential elements and model rule
  • Design of auction process
  • Essential elements for cap and trade rules
  • Designing regional organization