

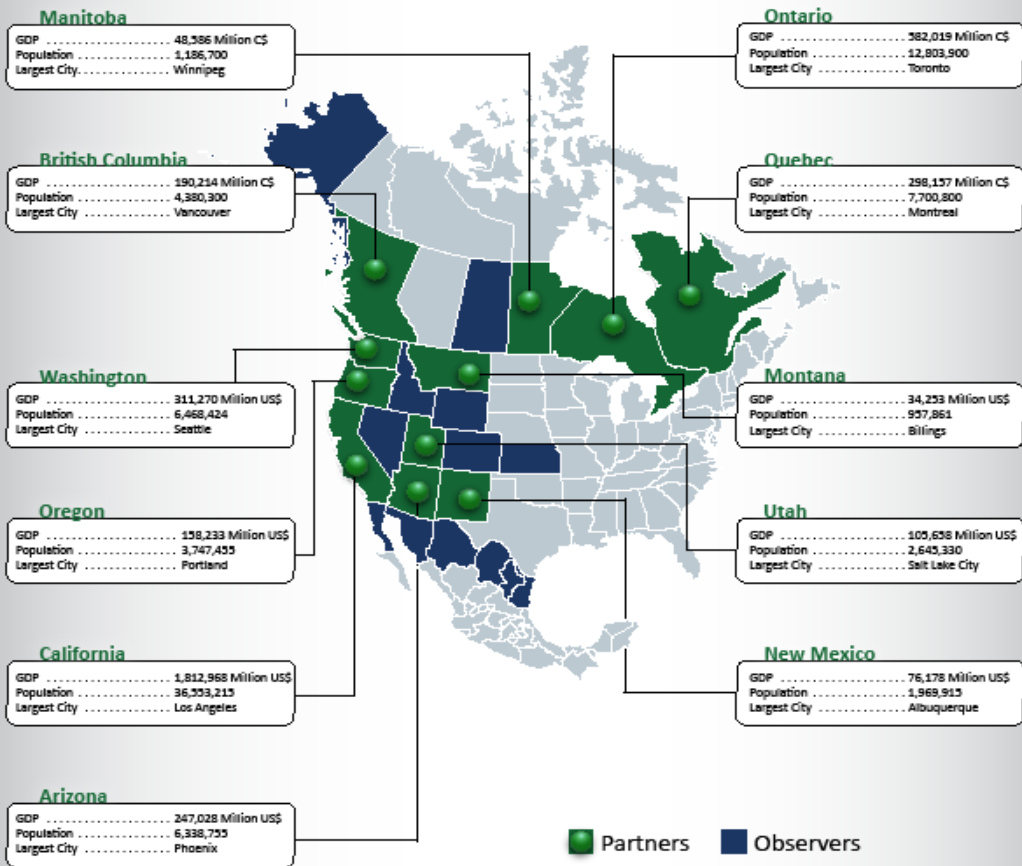


Climate Change

global warming

Overview of Western Climate Initiative
Final Design Recommendations

Western Climate Initiative



WCI OBSERVERS															
CANADA Saskatchewan	<table border="0"> <tr> <td>UNITED STATES</td> <td>MEXICO</td> </tr> <tr> <td>Alaska</td> <td>Baja California</td> </tr> <tr> <td>Colorado</td> <td>Chihuahua</td> </tr> <tr> <td>Idaho</td> <td>Cosahuila</td> </tr> <tr> <td>Kansas</td> <td>Nuevo Leon</td> </tr> <tr> <td>Nevada</td> <td>Sonora</td> </tr> <tr> <td>Wyoming</td> <td>Tamaulipas</td> </tr> </table>	UNITED STATES	MEXICO	Alaska	Baja California	Colorado	Chihuahua	Idaho	Cosahuila	Kansas	Nuevo Leon	Nevada	Sonora	Wyoming	Tamaulipas
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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 ½ 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

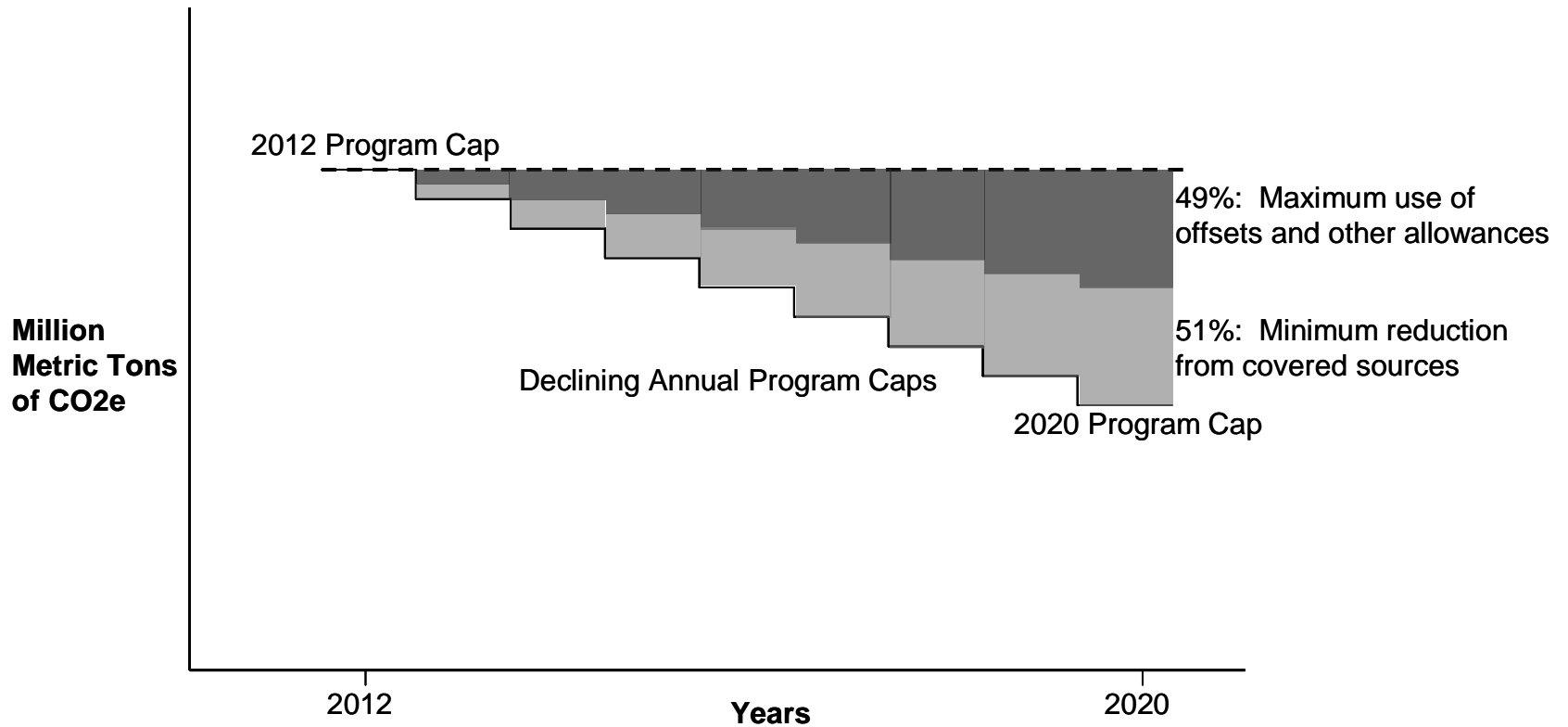
- Threshold
 - 25,000 metric tons annually for inclusion in the program
 - 10,000 metric tons annually for reporting
- Compliance flexibility
 - Offsets
 - Banking (no borrowing)
 - Early Reduction Allowances (ERA)
 - Three year compliance periods
 - Allowances from other cap and trade systems

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



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