



# Western Climate Initiative Overview

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## Western Climate Initiative History

- February 2007 – MOU signed by Governors of Arizona, California, New Mexico, Oregon and Washington
- British Columbia, Manitoba, Montana, Ontario, Quebec and Utah have since signed the Initiative
- Observers
  - U.S. states: AK, ID, CO, KS, NV, WY
  - Canadian provinces: Nova Scotia, Saskatchewan
  - Mexican states: Baja California, Chihuahua, Coahuila, Nuevo Leon, Sonora, Tamaulipas

## Western Climate Initiative (WCI)

Partner

Observer



## WCI Organization

- US and Canadian Co-Chairs
  - One year staggered terms; rotates between jurisdictions
- Committee of the Whole
- Federal Liaisons
- Committees and Teams:
  - Legal Team
  - Reporting Committee
  - Electricity Team
  - Offset Committee
  - Cap Setting and Allowance Distribution Committee
  - Markets Committee
  - Complementary Policies Committee
  - Economic Modeling Team

## Initiative Collaboration Includes

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*

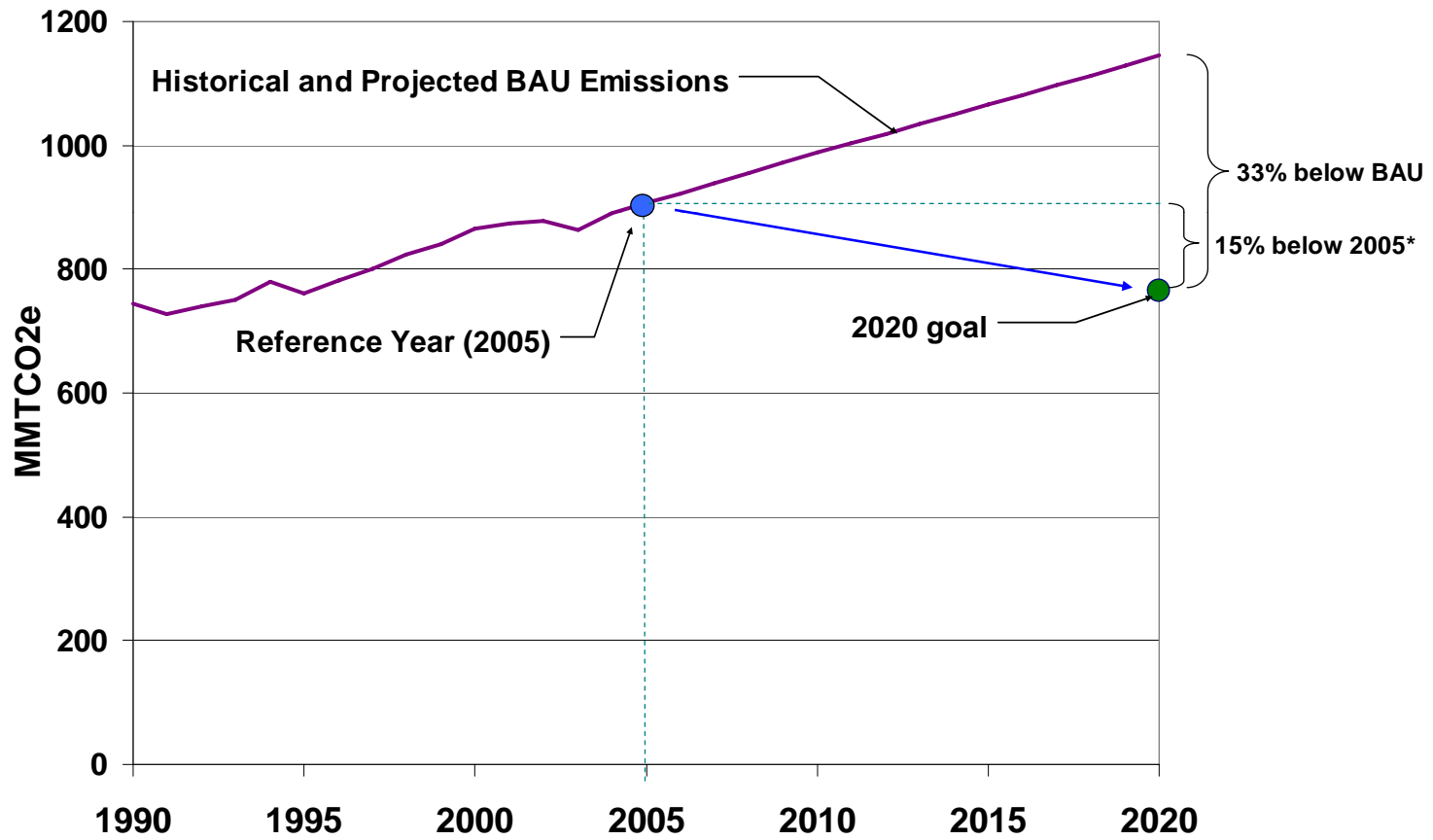
Joint work to:

- Promote clean and renewable energy in the region
- Increase energy efficiency
- Advocate for regional and national climate policies
- Identify measures to adapt to climate change impact

## WCI Regional Goal

- Established August, 2007
- Goal is 15% below 2005 levels by 2020
  - Consistent with WCI Partners' individual goals
  - Does not replace individual goals
  - Economy-wide
  - Goal is to be achieved by cap + other policies
  - Gases covered : CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O, HFCs, PFCs, SF<sub>6</sub>
  - Recognizes need for greater long-term reductions

## WCI Regional Goal



# WCI Cap and Trade

## Cap and Trade Basics

- Government sets cap on total emissions
- Emission allowances are distributed
  - Generally 1 ton GHG = 1 allowance
- Sources must acquire and retire allowances equal to emissions
- Sources can reduce emissions and sell allowances
- Market finds low cost emission reductions

## Operational GHG Cap-and-Trade Programs

- Regional Greenhouse Gas Initiative (RGGI)
  - CO<sub>2</sub> emissions from power plants
  - Goal: Stabilize emissions at current levels between 2009-2015, achieve 10% reductions from current levels by 2019
- European Union Emissions Trading Scheme (EU-ETS)
  - World's most ambitious and far-reaching GHG market
  - Limits CO<sub>2</sub> emissions from approximately 12,000 facilities in the 25+ EU member states, half the EU's CO<sub>2</sub> emissions.
  - Launched in 2005; covers power plants and five major industrial sectors (including oil, iron and steel, cement, glass, and pulp and paper)

## WCI Cap and Trade

- All 6 primary GHGs from all major sources, including transportation and other fuels
- Will cover over 80% of the region's emissions by 2015
  - RGGI = ~28% of emissions
  - EU ETS = ~40% of emissions

## Design Decisions

- Must establish:
  - Coverage
  - Point of Regulation
  - Cost containment/flexibility mechanisms
    - Banking, borrowing, offsets?
  - Allowance distribution
- Should consider:
  - Equity issues
  - Leakage
  - Co-benefits

## Leakage

- Refers to emissions that get pushed out of jurisdiction/region
- Depends on the cost of doing business
- Best way to avoid leakage is to expand coverage, minimize costs, and link with other systems
  - Electricity approach: First Jurisdictional Deliverer
- Allocation can help on leakage
- Traditional regulation can drive leakage too

## Cap-and-Trade: What Can Be Different

- State and provincial decisions:
  - Allocation of allowances within states and provinces
    - May standardize between sectors/jurisdictions
  - *Maximum* percent of allowances auctioned
  - Use of most of the value of the allowances
  - *Minimum* offset credits allowed
  - Allowance set-asides
  - Recognition of early reductions (other than ERA)

## Cap-and-Trade: 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, *cont.*

- 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

## Cap-and-Trade: WCI Design Starting Point

- Firm 2020 emissions limit
  - Based on individual state and provincial emissions goals
- Common approach to quantifying emissions
- Individual state/provincial programs
  - Each state/province adopts own rules
  - Harmonized around essential elements
  - Linked to create a regional trading market
  - All allowances and offset credits have same value

## WCI Cap and Trade Design Recommendations

- Established September, 2008
- Comprehensive
  - All 6 primary greenhouse gases
- Sectors
  - Large stationary sources – combustion and process emissions (2012)
  - Electricity (2012) – including imports
  - Transportation, Residential and Industrial Fuels – upstream (2015)
  - CO<sub>2</sub> from biomass and biofuels exempt except for reporting
- Start dates
  - 2012 with additional sectors added in 2015
  - Reporting starting with 2010 emissions

## More Design Recommendations

- **Threshold**
  - 25,000 metric tons annually for inclusion in the program
  - 10,000 metric tons annually for reporting
- **Compliance Flexibility and Cost Containment**
  - Offsets allowed
  - Banking but no borrowing
  - Three year compliance periods
  - Early Reduction Allowances (ERA)
  - Allowances from other cap and trade systems
- **Enforcement**
  - Three tons for every one ton short

## Scope, Timing, Points of Regulation

Source	In Scope	Point of Regulation
Electricity generation and electricity imports	2012+	First jurisdictional deliverer
Combustion at industrial and large commercial facilities, industrial process emissions	2012+	Point of emission
Combustion at small (< 25k tpy) industrial, commercial, and residential facilities	2015+	Upstream (where fuels enter commerce in the WCI Partner jurisdiction). Precise point TBD.

## Scope, Timing, Points of Regulation, *cont.*

Source	In Scope	Point of Regulation
Transportation fuels	2015+	Upstream (where fuels enter commerce in the WCI Partner jurisdictions, generally at a terminal rack, final blender, or distributor). Precise point TBD, may vary.
Biomass	No, if jurisdiction determines carbon-neutral	Reporting only
Biofuel combustion	No	Reporting only
Agriculture and forestry	No	

## What the Design Is and Isn't

- It is
  - the Policy framework
  - what must (or will) be the same between jurisdictions to have a regional program
- It isn't
  - the specific details; they will come through legislative and rule processes

# Specific WCI Cap and Trade Design Elements

## Caps

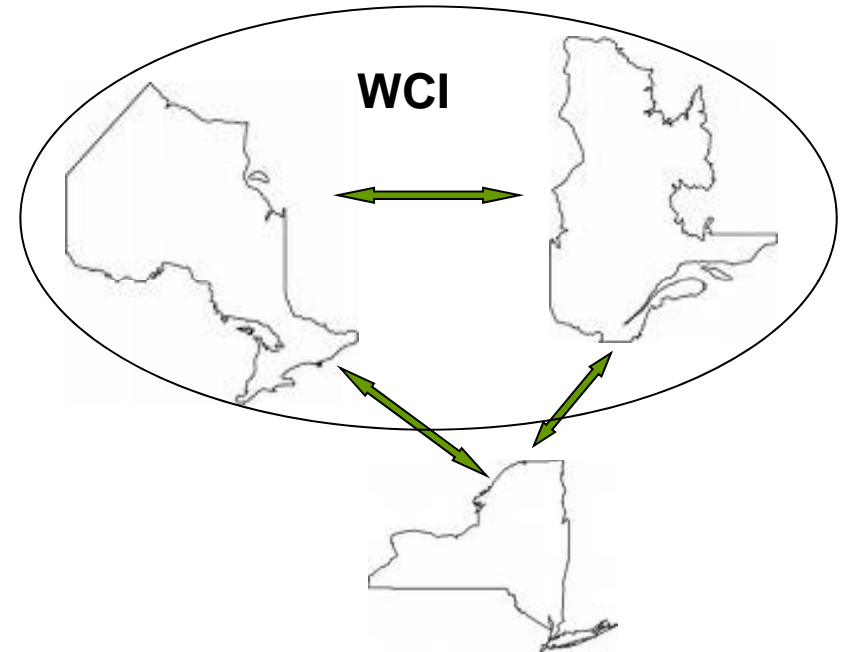
- Annual caps set before program begins
- 2012 cap = Based on best estimate of expected emissions
  - Reported emissions
  - Population and economic growth
  - Known changes
- 2015 cap = Add best estimate from transportation and residential, commercial and industrial fuels below threshold
- 2020 cap = Regional goal

## Allowance Distribution

- 10% minimum auction in 2012; increases over time
  - Half with reserve price to manage any over-allocation
- Distribution of remainder up to individual partners
- May be standardized for some industries to address competition

## Electricity: First Jurisdictional Deliverer Examples

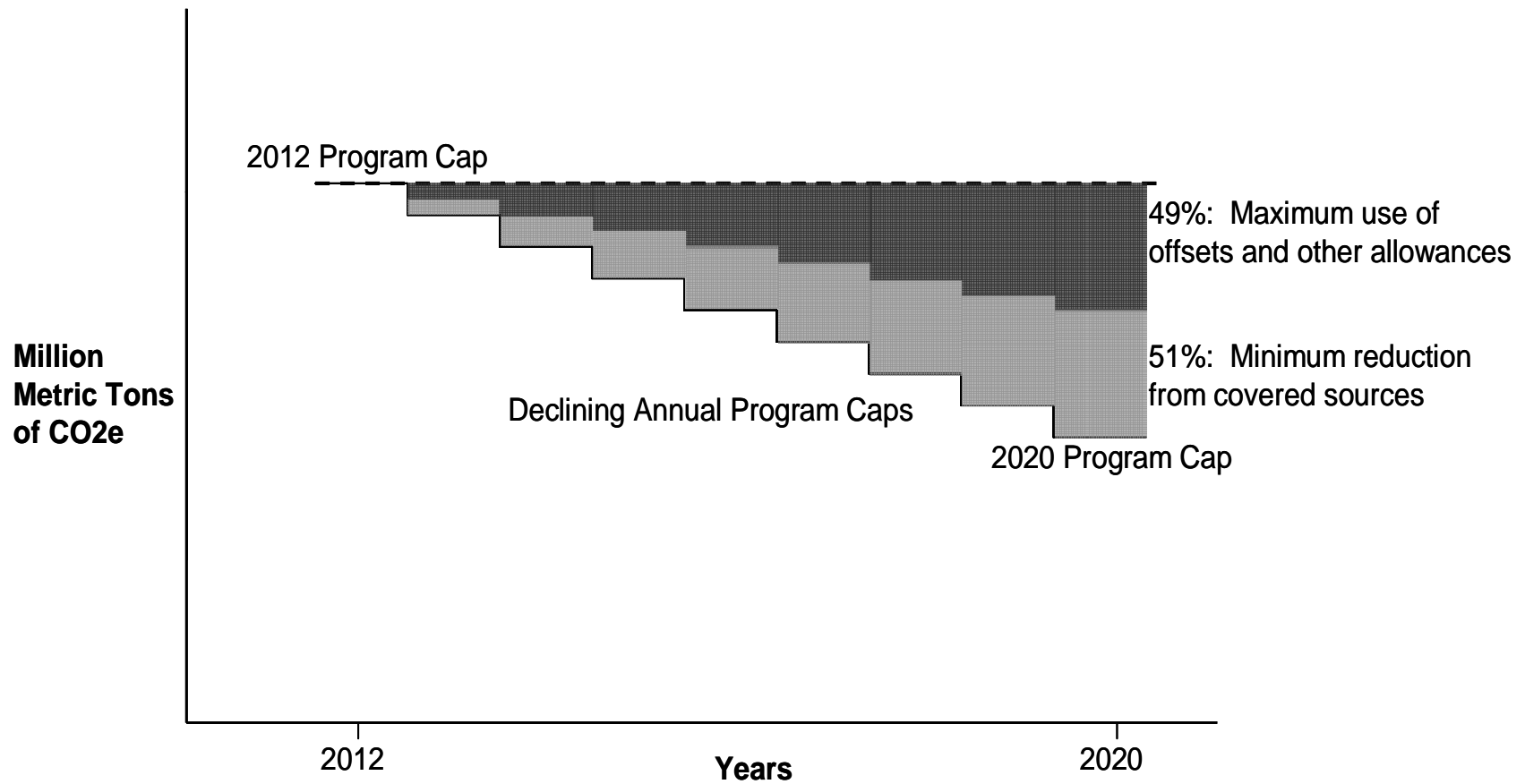
	Flow	Party Responsible for Emissions
1	ON-QC	ON generator
2	QC-ON	QC generator
3	ON-NY	ON generator
4	NY-ON	ON importer
5	NY-QC	QC importer
6	NY-QC-ON (linked)	ON importer
7	NY-ON-QC (linked)	QC importer
8	NY-ON then ON-QC	ON importer
9	ON-NY-QC (linked)	ON generator
10	ON-NY then NY-QC	ON generator and QC importer



## 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



## Early Reduction Allowances

- 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

## 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

# Context and Next Steps

## National Context

- WCI Partner jurisdictions support a national approach for cap-and-trade
- WCI Partner jurisdictions are continuing to work on the details of its cap-and-trade design
- The Partners have and will continue to share what we've learned with federal staff and agencies
- The Partners are also working on identifying where national and regional complementary policies may be needed
- WCI program – cap-and-trade working together with other policies – can serve as national model

## Stakeholder Input

- Ongoing stakeholder engagement is critical to the success of WCI
  - Stakeholder engagement activities are coordinated across WCI committees
  - Individual Partner jurisdictions will continue their own stakeholder work
- Open Partner meetings
- Materials posted on website for written comment
- Regular calls, workshops and LISTSERV announcements
- Monthly newsletter

## Next Steps

- Partners targeting release of Detailed Design summer, 2010
  - Supports harmonization for January 2012 start date
  - Extensive design work currently underway



Ontario

MINISTRY OF ENERGY AND INFRASTRUCTURE

## For More Information

- Contact WCI Partner representatives from your state or province
- WCI Website and LISTSERV: [www.westernclimateinitiative.org](http://www.westernclimateinitiative.org)
- Ministry of Energy and Infrastructure: [www.mei.gov.on.ca](http://www.mei.gov.on.ca)
- Ontario climate change: [www.ene.gov.on.ca/en/air/climatechange](http://www.ene.gov.on.ca/en/air/climatechange)