

Innovative Approaches to Climate Change: A State and Federal Workshop

Panel 2: Cap and Trade Design

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WCI: Where Do We Stand?

❑ Allocations:

- Major Options: January/February 2008
- Draft Recommendations:
 - Release: Week of March 31
 - Conference Call: Week of April 7
 - Comments Due: April 16

❑ Offsets:

- Major Options: January/February 2008
- Public Workshop: March 26, 2008 (Vancouver)

WCI: Where Do We Stand?

□ Electricity and Scope:

– Major Options: January/February 2008

– Draft Recommendations:

- Release: Week of March 3
- Conference Call: Week of March 10
- Comments Due: March 17

□ Recommendations: May 2008

Allocation: Some Issues

- ❑ **Uniformity among states/provinces**
 - Standardization
 - Variation -- within limits
- ❑ **Mix of auction and given away**
 - Given away: To Whom? What formula?
 - Auction: How? Proceeds?
 - Change over time?

Allocation: Some Observations

- Protect consumers?
- Compensate shareholders?
 - What portion?
- Protect workers?
- Address leakage?
 - Emissions sources “relocate” to avoid costs

Allocation: Addressing Leakage

- ❑ **Lose market share to others not internalizing carbon costs**
 - Locally – import competition
 - Globally – lose export market
- ❑ **Defeats the environmental objective**
- ❑ **Highly visible concern**
- ❑ **Affects a small portion of overall emissions**

Allocation: Leakage (continued)

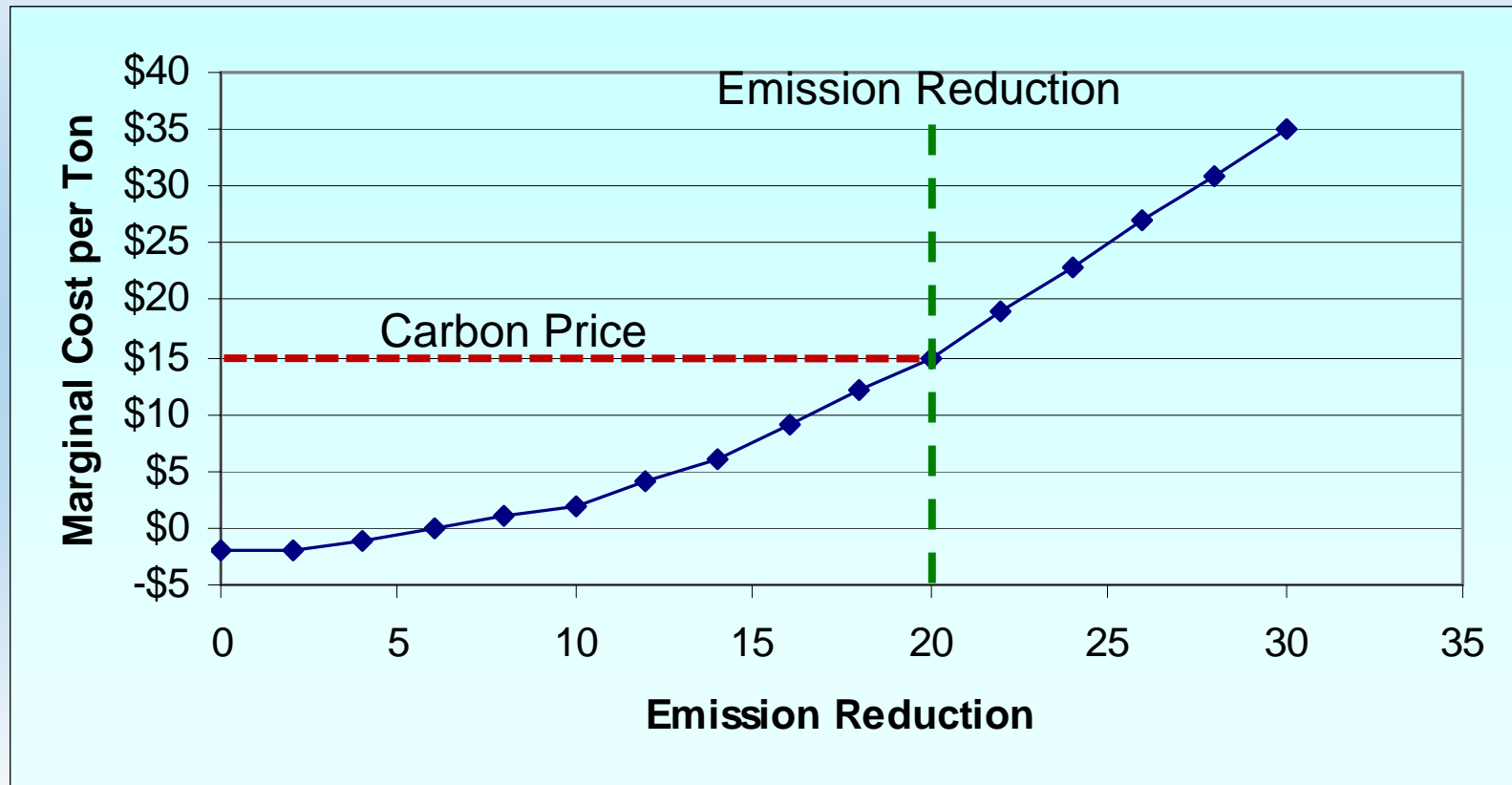
- **Create a “leakage free” playing field**
 - Define a “world best” emissions benchmark: Tons/unit
 - Give allowances for free equal to production times the emissions benchmark
 - The free allocation cannot be traded
- **Motivate improvement to “world best”**
 - Purchase allowances for emissions above benchmark
 - Periodically review world best benchmark

Federal-State Relationship

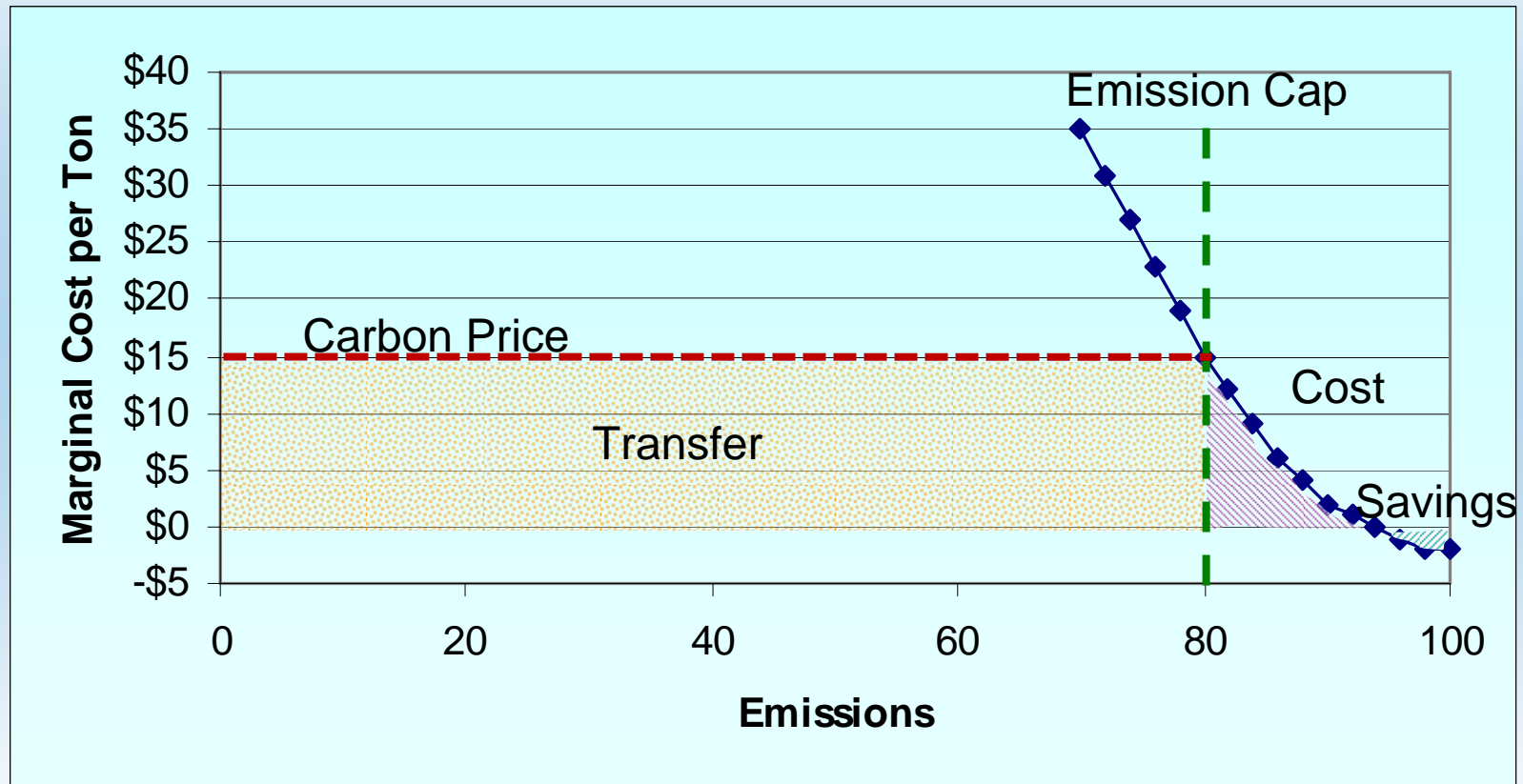
- ❑ What is the best federal role?
- ❑ What do States do best?
- ❑ How can State prerogatives be preserved?
 - Going beyond federal requirements
 - Customizing to local circumstances

- ❑ If there is a federal auction of allowances, the States are best positioned to make good use of some of the proceeds.

Auctions: Proceeds



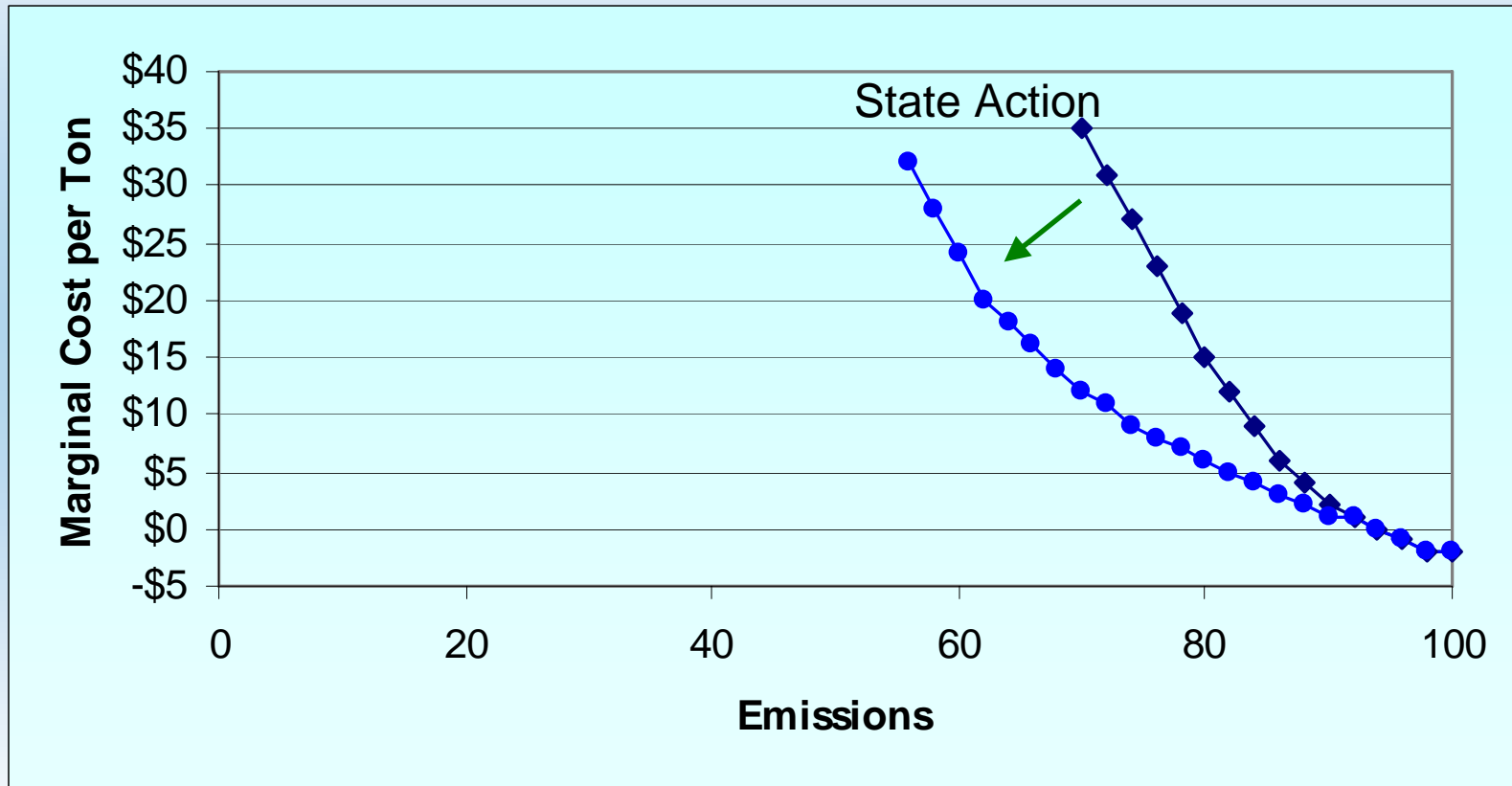
Auctions: Proceeds



Auctions: Proceeds and the States

- **The States are in the best position for important actions:**
 - **Customer focused energy efficiency (decoupling)**
 - **Building energy code enforcement**
 - **Planning: Transit oriented development and transit systems**
 - **Low income assistance (offset energy price increases)**
 - **Address sectors not easily capped**
 - **Adaptation**

Auctions: Proceeds



Auctions: Proceeds and the States (continued)

- ❑ **State “Best Practices”**
- ❑ **Flexibility for States to address their emissions**
- ❑ **Flexibility for States to go beyond federal requirements**
- ❑ **Accountability for States’ actions**
 - State plans?
 - Track performance?

Contact Information

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