

# Advancing cap-and-trade in North America: The Western Climate Initiative

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# About SEI



- International research institute with offices in
  - Sweden, UK, Thailand, Estonia, Tanzania, and US
- Climate change policy and economics, and energy modeling, and capacity building, including:
  - Support for state and local climate action plans
  - Design of offset markets and protocols
  - Advisor to Western Climate Initiative (WCI)

# State and provincial climate action

- US states are long-standing policy innovators and laboratories, often ahead of federal government
  - Balance of state and federal regulatory authority
  - Over 60% (30 of 50) US states have climate action plans
  - Several states have legally binding emission caps
- Canadian provinces are also taking the lead
- 3 regional cap-and-trade (C&T ) systems

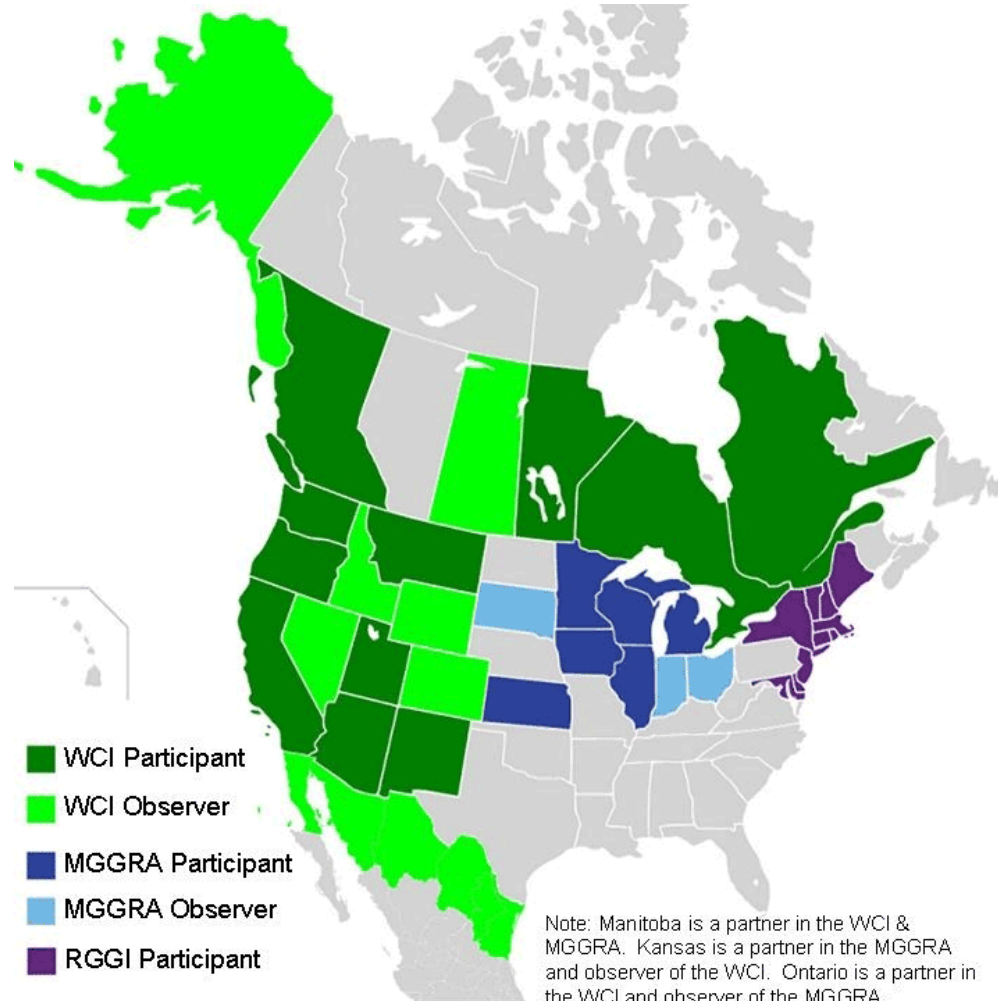
# WCI, RGGI, and Midwest Accord:

Cap and trade systems cover:

- ½ of US population (participating states)
- ¾ of Canada's (participating provinces)

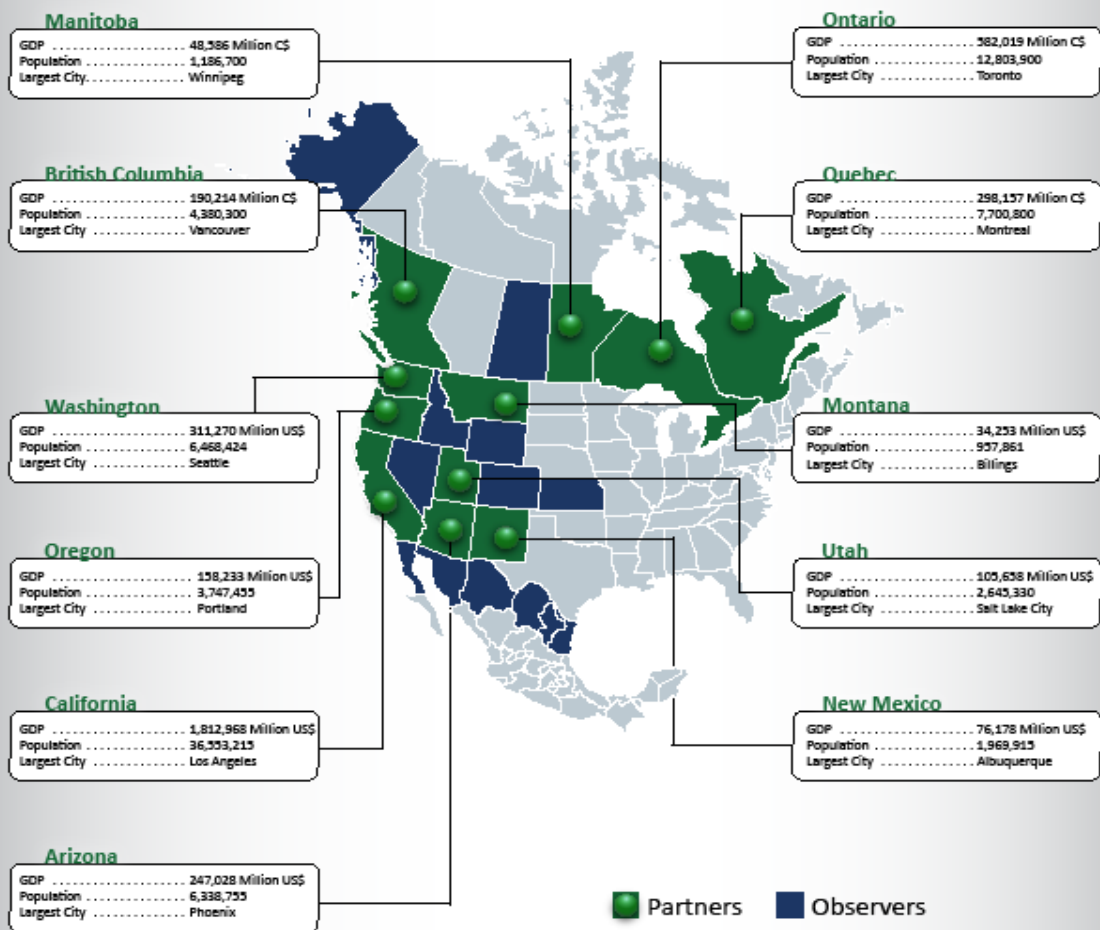
Benefits include:

- design innovation
- federal influence
- regional interests
- groundwork and capacity for functioning carbon market



# Western Climate Initiative

## WCI Timeline



- 2007 – Agreement & emissions goal: 15% below 2005 by 2020
- 2008 – Design recommendations
- 2009/10 – Workplan, rules, and authorization
- 2012 – Program start: Elec (FJD), large industrial
- 2015 – Transportation, RCI fuels in

### WCI OBSERVERS

CANADA  
Saskatchewan

UNITED STATES  
Alaska  
Colorado  
Idaho  
Kansas  
Nevada  
Wyoming

MEXICO  
Baja California  
Chihuahua  
Coahuila  
Nuevo Leon  
Sonora  
Tamaulipas

# Key C&T Design Features

	WCI	RGGI	Midwest Accord	ACESA (US)
Participants	7 US / 4 CA	10 NE US States	6 US + MB	Federal level
Status	Design released; authority in progress	Underway	Draft final design released	House approved
Start date	Jan 2012	Jan 2009	Jan 2012	Jan 2012
Gases	All 6 Kyoto	CO2 only	All 6	All 6
Coverage	≈90% Phase in 2012-15 (large elec & ind, transport, RCI)	≈30% Electric generators	≈90% No phase in*	≈85% Sources phased-in in 2012-16

# C&T Design Features (2)

	WCI	RGGI	Midwest Accord	ACESA (US)
Red. Targets	<b>Goal: 15% below 2005 by 2020; Cap &amp; budgets TBD</b>	Cap: 10% below "2009" by 2018	Cap: 18-20% below 2005 levels by 2020	Cap: 15% below 2005 levels by 2020
Offset Limits	<b>≈5% of compliance obligation (emissions) (49% of red. 2012-20)</b>	3.3%+ of emissions (50% of red. BAU), higher with price triggers	20%+ of emissions, higher with price triggers	30->60% of emissions (2 bill. tCO <sub>2</sub> e/yr), option to increase
Int. Offsets	<b>CERs with potential (equivalent rigor) screens</b>	CERs/ERUs if price above threshold	Will consider	1-1.5 bill tCO <sub>2</sub> e/yr; 20% discount after 2018

# Design Features (3)

	WCI	RGGI	MGGRA	ACESA
Cost Containment Features	Offsets, 3-year compliance, banking, early action credit	Similar to WCI, plus offset limit price triggers.	... plus limited borrowing	Offsets, 2-yr comp.period, banking, limited borrowing, strategic reserve
Allowance Provisions	25%+ auction by 2020. Allow. value for public purposes and (by jurisdiction) for consumer protection, transition assistance...	> 90% to be auctioned or sold; 25%+ for public purposes	Roughly 1/3 auctioned; 2/3 sold for fee.	Complicated distribution >50% to protect consumers; rest to vulnerable industries, clean energy; dom/int adaptation, REDD...
Complementary Policies	Focus of further WCI work (existing policies get 1/2 way to goal)			Appliance, building, HDV, renewables standards, large methane sources regulated...
Allowance Price Est. 2020	US\$24/tCO <sub>2</sub> e (2008 est.)			US\$16/tCO <sub>2</sub> e (USEPA June 2009, core)



# WCI and federal action

- Support effective federal action
- Prepare to go into force on Jan 1 2012 if such action is inadequate
- Focus on areas where federal policy still unclear, e.g.
  - Offsets: rules and protocols, limits and how to implement, how to engage on forestry
- Engage on complementary policies

# WCI letter to US Senate (Sep 2009)

- Achieve national reductions consistent with prevailing science
- Allow state/regional C&T programs until federal one starts
  - equitable exchange of state allowances and offsets for federal allowances
- Limit federal preemption of state-level complementary policies
- Provide states with ability to retire federal allowances
- Avoid overly generous offsets provisions
  - ensure a majority of ERs occur in capped sectors...
  - while still providing effective cost containment
  - provide allowances for *early adoption* of improved ag/forestry practices that may not be eligible to meet requirements of the offset program

# Summary

- WCI C&T design work continuing (offset protocols, competitiveness, etc.)
- Model for, and a spur to, federal action
- Ready to go if/as needed
  
- Balance of state and federal roles in climate policy and carbon markets remains in play