DEPARTMENT OF ECOLOGY
State of Washington

CTED | Community, Trade and Economic Development

Responding to the Climate Change Challenge December 2008

Consistency and State Discretion

Proposed Regional Cap-and-Trade Program

A design for a regional market-based climate program that reduces global warming pollution to promote a thriving economy and protect public health

Overview

For the Western Climate Initiative (WCI) to have a market for carbon allowances that can operate regionally, certain program elements must be the same in all participating jurisdictions. Generally, these are the elements that affect the value of allowances or offsets. Many of the reporting requirements must also be the same to ensure all covered emissions are reported and measured in the same way and emissions reductions are properly captured.

Each jurisdiction will recognize allowances and offset credits issued by the other WCI jurisdictions. That way, all WCI allowances and offsets are considered equivalent and interchangeable throughout the region, regardless of which jurisdiction issued the allowance or credit. Without this mutual recognition, there will be no functional carbon market.

State discretion

Many critically important design elements are left to the discretion of the WCI jurisdictions. These include:

- How to distribute allowances – free, by auction, or a combination of the two. The WCI design requires jurisdictions auction a minimum of 10 percent of allowances in 2012, increasing to a minimum of 25 percent by 2020.
- How many allowances to set aside for specific uses, such as for new entrants or for hydroelectric utilities in low water years when more fossil-based electricity may be required.
- What percentage of their allowance budget will be used for recognition of early reductions that do not meet the criteria for Early Reduction Allowances (ERA).[1]
- How much to increase the percentage of allowances a jurisdiction auctions over time.
- How to use any revenue that may be generated from allowance auctions.
- More stringent limit on the use of offset credits. A maximum of 49 percent of the total required emissions reductions will be allowed to come from offset credits.

Consistency between jurisdictions

Program elements that must be the same between jurisdictions include:

- Basic reporting requirements; a state or province may have broader reporting requirements.

- The sectors of the economy and greenhouse gases (GHG) that will be included and the year coverage will begin.
- The amount of emissions that lead to a reporting or compliance requirement.
- Which entity or facility has the compliance obligation, also known as the "point of regulation."
- Quantification methods for determining the amount of GHG emitted, reduced, or stored.
- Setting the annual regional emission cap.
- Establishing each jurisdiction's annual allowance budget.
- The length of the compliance periods.
- If and how banking and borrowing will be included in the program.
- Criteria for issuing ERA, in addition to each jurisdiction's allowance budgets.
- Criteria for offset projects and issuance of offset credits, including protocols for specific project types.
- The maximum amount of offset credits that will be allowed in the program.
- The regional auction design and its implementation.
- Whether or not and how to link with other cap-and-trade systems.
- The administrative functions that may be provided by a joint regional organization.

More information

Washington's Climate Change Web site

www.ecy.wa.gov/climatechange/index.htm

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[1] See Ecology Publication 08-01-029 *Setting the Regional Cap* for more information on Early Reduction Allowances.