Setting the Regional Cap

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

The Western Climate Initiative (WCI) cap-and-trade program design includes the methods for:

- Setting the regional cap on greenhouse gas (GHG) emissions for each year from 2012 through 2020. The goal is to reduce GHG emissions to 15 percent below 2005 by 2020.
- Determining each jurisdiction's share of that cap, commonly called the allowance budget or allowance cap.

Each jurisdiction will recognize allowances issued by other WCI jurisdictions so that all WCI allowances are considered equivalent and interchangeable throughout the WCI states and provinces, regardless of which jurisdiction originally issued them. Without this mutual recognition, there will be no functional carbon market. The method used for determining the regional and state caps is designed to minimize the potential for having too many allowances in the system, which is also critical to a functional market.

Regional cap

The regional cap is an overall emissions limit set for the WCI jurisdictions as a group. Think of the regional cap as a pie. That pie equals the total emissions from each state and province in the WCI. Each ton of emissions in the pie equals one allowance, or tradable permit.

Method

Before the program starts, the WCI jurisdictions must calculate the regional cap for 2012 and each year of the program through 2020. The 2012 cap will be the best estimate of expected emissions in 2012, which will be based on population growth, economic activity, and any mandatory emissions reductions. In addition, the regional cap will be:

- Equal to the sum of all the individual jurisdictions' allowance budgets.
- Adjusted in 2015 when the program is expanded to include transportation fuels, residential and commercial fuels, and fuels used at small industrial sources.[1]
- Reduced steadily over time to reach the WCI's emission reduction goal of 15 percent below 2005 levels by 2020.
- Modified only for changes in WCI membership, program scope or applicability thresholds, or to correct data found to be incorrect or inaccurate.

Allowance budgets

Once the regional caps are set, each state and province will receive an annual share of those allowances. These allowance budgets will be the allowance caps for each state and province, and will decrease steadily over time like the regional caps. The sum of the allowance budgets will equal the regional cap set for each year.

Method

Each jurisdiction's allowance budget will be based on the best estimate of expected emissions from sources that will be covered by the program. The jurisdictions will use the best available data including population growth, economic growth, and known changes in emissions. The allowance budgets will be set before the start of the cap-and-trade program in 2012 and will only be adjusted for changes in WCI membership, changes in program scope or applicability thresholds, or to correct data found to be incorrect or inaccurate.

2012 One-time adjustment

A one-time adjustment will be made to the jurisdiction's allowance budgets in 2012 only. Each jurisdiction will contribute one percent of their initial 2012 budget into a "kitty" that will be redistributed between the jurisdictions based on three things:

- The production and consumption of electricity of the WCI jurisdiction.
- Population growth in the WCI jurisdiction.
- The share of total emissions in 2001 through 2005 represented by each jurisdiction.

The jurisdictions must still determine the method they will use to redistribute this adjustment.

2012 Early reduction allowances

Facilities and entities covered under the program will be encouraged to reduce GHG emissions after January 1, 2008 and before the start of the first compliance period in 2012 through the issuance of Early Reduction Allowances (ERA). These allowances will be added to each jurisdiction's 2012 allowance budget and be allocated to the facility or entity that made the reduction. By the end of 2009, the WCI jurisdictions will jointly establish criteria to determine which early reduction actions will be eligible for these ERA. The criteria will ensure that the reductions are voluntary, additional or surplus, real, verifiable, permanent, and enforceable. An ERA will be fully tradable and bankable just like other allowances in the cap-and-trade program.

2015 Allowance budgets

In 2015, transportation fuels and residential and commercial fuels, and fuels used at industrial sources whose emissions are below the threshold will be added to the cap-and-trade program. The best estimate of expected actual emissions in 2015 from the combustion of these fuels will be added to each WCI jurisdiction's allowance budget at the end of the first compliance period. The estimate of expected actual emissions in 2015 will be developed using the best available data including available mandatory reporting data, population growth, economic growth, and known changes in emissions.

More information

Washington's Climate Change web site
www.ecy.wa.gov/climatechange/index.htm

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[1] A small industrial source is one with emissions that are below the 25,000 annual metric ton CO_2e threshold – these facilities will not be included in the program, but the entity that sells them fuel may be included.