Other Greenhouse Gas Cap-and-Trade Programs

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

In addition to the Western Climate Initiative (WCI), there are two other regional cap-and-trade programs for greenhouse gases within the United States:

- The Regional Greenhouse Gas Initiative (RGGI)
- The Midwestern Greenhouse Gas Reduction Accord (the Midwest Accord)

The first cap-and-trade program for carbon dioxide was the European Union's Emission Trading Scheme (EU-ETS). RGGI and the EU-ETS are operating while the Midwest Accord is in the planning stages, and expects to release its preliminary design recommendations in early 2009.

Regional Greenhouse Gas Initiative

RGGI was established in December 2005 by the governors of seven Northeastern and Mid-Atlantic states: Connecticut, Delaware, Maine, New Hampshire, New Jersey, New York, and Vermont. Massachusetts and Rhode Island both joined RGGI in early 2007, and Maryland joined in April 2007. It was the first mandatory U.S. cap-and-trade program to set a cap on emissions of carbon dioxide from power plants, about 28 percent of the emissions in the participating states. The program will begin by capping emissions at current levels in 2009, and then reducing emissions 10 percent by 2019. RGGI held its first allowance auction on September 25, 2008. RGGI expects to auction nearly 100 percent of the region's allowances. *http://www.rggi.org/home*

The Midwestern Greenhouse Gas Reduction Accord

On November 15, 2007, six states and one Canadian province established the Midwestern Regional Greenhouse Gas Reduction Accord. Under the Mid-West Accord, members agreed to:

- Establish regional greenhouse gas (GHG) emission reduction targets, including a long-term target of 60 to 80 percent below current emissions levels.
- Develop a multi-sector cap-and-trade system to help meet the targets.
- Establish a GHG emissions reductions tracking system.
- Implement other policies, such as low-carbon fuel standards, to aid in reducing emissions.

The governors of Illinois, Iowa, Kansas, Michigan, Minnesota, and Wisconsin, and the Premier of the Canadian Province of Manitoba, signed the Mid-West Accord as full participants; the governors of Indiana, Ohio, and South Dakota joined the agreement as observers to participate in the development of the cap and trade system. *http://www.midwesternaccord.org/*

European Union Emission Trading Scheme

One of the most prominent programs, and the first to address carbon dioxide emissions, is the European Union's Emission Trading Scheme (EU-ETS). The EU-ETS covers carbon dioxide emissions from power generation, some industrial process emissions, and all large industrial combustion facilities. It covers about 40 percent of all GHG emissions in the participating countries.

Proposed in 2001, the EU-ETS began its three-year "learning phase" in 2005. That phase was intended to develop the infrastructure for the cap-and-trade system and provide experience for governments and regulated entities so that significant reductions in GHG emissions could be accomplished in subsequent phases. The learning phase was not designed to reduce GHG emissions. The second phase covers the years 2008 – 2012 and reductions are targeted at 6 percent below 2005 levels. A maximum of 10 percent of the allowances will be auctioned during the program's second phase. *http://ec.europa.eu/environment/climat/emission/index_en.htm*

Lessons Learned

WCI has benefited significantly from the lessons learned in trial phase of the EU-ETS as well as through studying and understanding the design adjustments implemented and proposed for Phases 2 and 3. In particular, the EU-ETS learning phase demonstrated:

- The importance of accurate emissions data to create an effective trading system that results in sufficient emissions reductions and to ensure that the appropriate number of allowances is distributed.
- That cost containment measures such as banking and multi-year compliance periods tend to reduce market volatility.
- Suppliers quickly factor the price of emission allowances into their business decisions under a cap-and-trade program.

WCI jurisdictions will work with RGGI on WCI's auction design, the elements needed to prevent manipulation of and excessive speculation in the allowance market and the lessons RGGI learns as it progresses. RGGI designed its auction to:

- Provide allowances to those who need them.
- Not maximize revenues (all revenues must be used to promote energy conservation and renewable energy).
- Prevent collusion.
- Prevent hoarding.
- Minimize volatility.
- Monitor market participants.

These are the results of its first auction:

- All of the 12.6 million allowances were sold.

- The clearing price was $3.07 per ton.
- There were 59 participants.
- Bids for allowances totaled $51.8 million; approximately $38 million was collected in auction revenues.
- Compliance entities purchased most (80 percent) of the allowances.

More information

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

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