

Allowances Subgroup

Midwestern Greenhouse Gas Reduction Accord
Advisory Group Public Meeting
July 29, 2008
Milwaukee, WI

What is an allowance?

- In a cap-and-trade system, the government sets cap on total emissions
- Emission allowances are distributed
 - Generally 1 ton GHG = 1 allowance
 - Traded in the cap-and-trade system
 - Total number of allowances issued has to equal the overall cap (e.g., if the cap is set at 1 million tons, 1 million allowances will be issued)
- Sources must hold allowances equal to emissions
- Sources can reduce emissions and sell allowances

Subgroup Design Questions

- What is the initial allowance apportionment for the cap-and-trade program?
 - Will allowance apportionment be established by jurisdiction? By sector? Both?
 - What are the primary objectives to be accomplished in setting allowance apportionment/caps? What purposes will allowance value be put toward?
- How will the reductions be implemented within the cap-and-trade program?
 - Will the reduction schedule be uniform for each jurisdiction, each sector or both?
- How will allowances be distributed?
 - Auction? Free allocation? Some of each?
 - Which entities will receive allowances?
- Will distribution methods be similar across the region? All or some decisions be left to jurisdictions?

Subgroup Tasks

- **Task 1. Identify Primary Objectives for Allowance Distribution Within Jurisdictions and/or Sectors.** Determine the possible objectives for the regional agreement on allowance distribution.
- **Task 2. Identify Possible Approaches to Establishing Jurisdictional and/or Sectoral Allowance Distribution.** Consider the range of possible approaches to establishing emissions allowance distribution by jurisdiction and/or sector.
- **Task 3. Identify Design Issues for Banking, Borrowing, Early Action and Compliance Period.**
- **Task 4. Determine Information Needs.** Determine what information and/or analysis is necessary to evaluate the options.
- **Task 5. Option Evaluation.** Evaluate each of the major options identified in Tasks 2 and 3.
- **Task 6. Option Recommendation.** Develop a consensus recommendation from the Allocations Subgroup to the Advisory Group.

Work Plan – Timeline and Summary of Work To-Date

<u>Task or Milestone</u>	<u>Steps</u>	<u>Schedule</u>
Subgroup Work Plan	Draft	April 29, 2008
	Final	May 9, 2008 COMPLETED
Deliberations	Identify Objectives	May to June COMPLETED
	Identify Options for Setting Budgets and Distributing Allowances within Jurisdictions and/or Sectors	May to June COMPLETED
	Determine Information Needs & Gather Information	May to July IN PROCESS
	Evaluate Options	June to August IN PROCESS
Make Initial Recommendation	Develop and Convey Recommendation	August
Revise Recommendation per Advisory Group		August to September

Allowance Distribution Design Principles

Allowance distribution shall:

- Safeguard the integrity of the program and the achievement of its GHG reductions.
- Reduce the cost of the program to consumers, especially low-income consumers.
- Maximize, and ensure the equitable distribution of, economic, employment, environmental and public health benefits.
- Assist firms, especially in highly competitive sectors, in transitioning to a low-carbon economy.
- Encourage job creation to support a low-carbon economy, including job training and transition assistance.
- Avoid windfalls through over-compensation, and avoid under-compensation.
- Promote investment in research, development and deployment of low-carbon technologies and fuels, particularly focusing on sectors and resources addressed in the MGA Platform, including energy efficiency, bioenergy, renewable electricity and advanced coal and carbon capture and storage.
- Avoid incentives that sustain or increase overall GHG emissions.
- Ensure transparency and strive for simplicity in the distribution process.
- Help to ensure market liquidity and transparency.

Current status

Subgroup is currently working on draft proposal to help reach recommendations on the following key issues

- **Allowance value distribution purposes**
 - Focused on climate-related purposes.

Two basic categories:

1) Accelerate transformational investment:

- Distribute allowance value to incentivize low carbon technology with focus on: Commercial deployment, particularly sectors and resources addressed in the MGA Platform, including energy efficiency, bioenergy, renewable electricity, advanced coal and carbon capture and storage, transportation, and combined heat and power.

2) Mitigate:

- Transitional economic harm (industrial, workers, consumers)
- Climate change impacts on communities and natural resources/adaptation

Key Issues cont.

- **Auction and/or free allocation**
 - Decision on whether to distribute allowances through auction, some form of free allocation, or some of each should be driven primarily by what the group seeks to achieve through distribution of allowance value.
 - Subgroup seeks to achieve emissions reductions most efficiently, while maximizing the economic and public benefits to our region, minimizing economic harm, and ensuring fairness.
 - Transition over time?
 - Basis for distribution?
- **Apportionment of allowances to jurisdictions**
 - Based on GHG emissions per capita? Total emissions? Population and growth in jurisdictions? Other?
- **Jurisdictional vs. Regional allocation**
- **Credit for early action**
- **Handling of new entrants to the market**
- **Banking and borrowing (other cost containment issues to be addressed later based on modeling results)**

Next Steps

- Work on key decisions and draft recommendations
- August: Make preliminary recommendation
- September: Revise recommendation based on modeling results and advisory group input
- November: Assemble final recommendations on program design