

# **MIDWESTERN GREENHOUSE GAS REDUCTION ACCORD**

## **PRELIMINARY RECOMMENDATIONS OF THE ADVISORY GROUP**

### **INTRODUCTION**

On November 15, 2007, the Governors of Illinois, Iowa, Kansas, Michigan, Minnesota and Wisconsin, and the Premier of Manitoba entered into the Midwestern Greenhouse Gas Reduction Accord (the "Accord"). The Accord calls for the establishment of targets for greenhouse gas (GHG) emission reductions and timeframes consistent with states' and provinces' targets and the development of a regional cap-and-trade program design. In early 2008, the Governors and Premier convened an Advisory Group consisting of a diverse group of individuals representing varied interests from across the region, including representatives from state and provincial governments, business, energy and environmental advocacy groups, and academia.

The Advisory Group was charged with making recommendations for the establishment of targets for emissions reductions in the region, and for the design of a regional cap-and-trade program. After lengthy deliberation and consideration of the various options for the participating jurisdictions, the Advisory Group has arrived at the preliminary recommendations contained below.

These recommendations do not reflect unanimous endorsement of each provision by all Advisory Group participants but rather overall agreement on work in progress that participants feel is ready for broader public review and input prior to finalizing the recommendations next year. In that regard, any text that is bracketed in these recommendations should be interpreted as reflecting particular uncertainty at this time.

### **DESIGN PRINCIPLES**

In setting the regional reduction target and designing the cap-and-trade program, the Advisory Group considered the following design principles:

- Ensure that the system is equitable, administratively simple for government and private participants, minimizes administrative costs, and has a clear compliance path;
- Cover as many sources as is practical, while encouraging emissions reductions beyond the capped sources and sectors;

- Assure a transparent and robust data gathering and accounting system that will measure and report emissions accurately and consistently across all sectors and throughout the region;
- Distribution of allowance value should support the goals of the program, including compensating for disparities and impacts caused by the program;
- Enable linkage to systems in other jurisdictions with similarly rigorous accounting in order to create economies of scale and to increase market efficiencies, diversity and liquidity, while reducing costs;
- Maximize economic, employment, energy diversity, environmental and public health benefits, while minimizing any transitional job losses and energy and other cost impacts;
- Reduce the potential for emissions leakage, including the shifting of economic activity to non-covered sources and to non-participating jurisdictions;
- Stimulate investment, especially in low-carbon technologies, and reward innovations that will lead to near and long-term, permanent greenhouse gas reductions;
- Credit qualified past and present actions to reduce GHG emissions;
- Require any offsets to be real, surplus/additional, verifiable, permanent and enforceable;
- Allow flexibility for participating jurisdictions to meet specific policy needs and objectives, while maintaining regional program uniformity;
- Demonstrate leadership toward, and enable transition to or harmonization with, any future federal program, while ensuring the capability of the regional program to stand on its own, if necessary; and
- Reduce the potential for and scale of unintended economic consequences of the policy, while maintaining an appropriate price signal.

## THE RECOMMENDATIONS

### 1.0 EMISSIONS REDUCTION TARGET

- 1.1 Reduction Targets: The Advisory Group recommends the following emissions reduction targets for the participating jurisdictions.
  - 1.1.1 2020 Target. The Advisory Groups has requested modeling analysis of a target that reduces emissions by 15, 20, and 25 percent below 2005 levels by 2020.
  - 1.1.2 2050 Target. The Advisory Group recommends a 60-80 percent reduction below 2005 levels by 2050<sup>1</sup>.
  - 1.1.3 The Advisory Group also recommends that the targets be revisited and adjusted from time to time based on future scientific findings, technology developments, and program results, and recommends the establishment of a mechanism to conduct this review as provided for in 7.0.

### 2.0 PROGRAM SCOPE

- 2.1 Sectors and Fuels. The Advisory Group recommends that the program cover the following sectors:
  - 2.1.1 Electricity generation and imports
  - 2.1.2 Industrial combustion sources
  - 2.1.3 Industrial process sources, provided that credible measurement & monitoring protocols exist or can be developed.
  - 2.1.4 Fuels serving residential, commercial and industrial buildings not otherwise covered in 2.1.1 or 2.1.2 above, [to be phased in during the second compliance period ]
  - 2.1.5 Transportation fuels<sup>2</sup>
- 2.2 Greenhouse Gases. The program should cover the following greenhouse gases, as appropriate: carbon dioxide, methane, nitrous oxide, hydro-fluorocarbons, perfluorocarbons, and sulfur hexafluoride. *De minimus* emissions should be excluded.
- 2.3 Points of Regulation. The following are the recommended points of regulation for each sector:

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<sup>1</sup> The reduction range for 2050 is consistent with scientific recommendations of the Intergovernmental Panel on Climate Change and with targets already established by some Accord jurisdictions.

<sup>2</sup> Final determination of whether and when transportation fuels will be covered under the program will be made after review of other program elements and modeling results.

- 2.3.1 For electricity, the first deliverer of electricity: for electricity generated within participating jurisdictions for sale, the first deliverer is the generator of that electricity; and for electricity generated outside the participating jurisdictions, the first deliverer is the entity that first delivers the electricity into a participating jurisdiction for consumption in a participating jurisdiction.
- 2.3.2 For industrial combustion emissions, the emissions' sources.
- 2.3.3 For industrial process emissions, the emissions' sources.
- 2.3.4 If transportation fuels are included, where the fuels enter the market in the participating jurisdictions; generally at the terminal rack, final blender or distributor.
- 2.3.5 [For residential, commercial and industrial combustion emissions not covered at 2.3.1 and 2.3.2, where the fuels enter the market in the participating jurisdictions; generally at the terminal rack, final blender or distributor.]
- 2.4 Threshold for Coverage. Pending review of additional sectoral data, the emissions threshold for coverage at individual covered sources will be established on a sector-by-sector basis with the goal of including between 85% and 95% of the emissions in each sector.
- 2.5 Cap-and-Trade Reductions. The reduction to be achieved by covered sectors should be proportionate to their share of total emissions, provided that, together with complementary policies, the program achieves the recommended reduction goal set out in 1.0. The program will ensure that all sectors contribute equitably to achieving the regional reduction target.
- 2.6 Complementary Policy Reductions. The recommendations on the scope of the cap-and-trade program assume that other policies will be implemented for covered and non-covered sectors to supplement the program and to ensure that comparable reductions will be achieved in non-covered sectors so that, taken together, the cap-and-trade program and the other policies will achieve the regional goal equitably across the economy.
- 2.7 Linking. The Advisory Group recommends that the participating states and province seek to link the Accord to the:
  - 2.7.1 Northeast Regional Greenhouse Gas Initiative covering ten northeastern and mid-Atlantic states;
  - 2.7.2 Western Climate Initiative, covering seven western U.S. states and four Canadian provinces;

- 2.7.3 European Emissions Trading System; and
- 2.7.4 Other mandatory greenhouse gas reduction programs as appropriate.

### 3.0 ALLOWANCES

- 3.1 State and Provincial Allowance Budgets. Apportionment refers to how the total regional allowance budget is divided into participating jurisdictions' allowance budgets.<sup>3</sup> The Advisory Group recommends that the state and provincial allowance budgets should be established based primarily on absolute emissions allowed in each state and province, calculated in a uniform manner. Some portion of the state and provincial allowance budget may be apportioned based on other criteria, such as GHG emissions per capita; baseline year for allocation (i.e. adjustments to allow reward for early action); population and economic growth in the participating jurisdictions; and new sources or projected new sources.
- 3.2 Reduction Path. Allowance apportionment will decline in line with the targets trajectory over time.
- 3.3 Allowance Distribution: Purposes. Allowance value should be put toward climate-related purposes, not other purposes. The program will entail a significant economic transition. The Subgroup recognizes the need to mitigate the costs and maximize the benefits associated with this transition. Climate-related purposes include three categories: (1) accelerating transformational investment; (2) mitigating transitional adverse impacts of the program, and (3) addressing harmful impacts due to climate change. These recommendations are made on the assumption that strong complementary policies are enacted and funded outside of the cap and trade program.
  - 3.3.1 *Accelerating Transformational Investment.* Allowance value should be distributed to accelerate:
    - 3.3.1.1 Commercial development and deployment of low-carbon technologies, infrastructure, and strategies primarily for sectors covered by the cap and trade program. Distribution should be especially focused on those initiatives covered by the MGA platform, with emphasis on the recommendations of the MGA Platform Advisory Groups, and where potential GHG emissions reduction benefits are

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<sup>3</sup> This is distinct from allowance distribution, which describes how jurisdictions choose to distribute their share of allowances into the market.

substantial and/or a lack of funding is a key barrier to success.

- 3.3.1.2 The revitalization, retooling, conversion, and/or re-use of existing industrial and manufacturing infrastructure in the Midwestern region, including the transportation sector, if covered.

3.3.2 *Mitigating Transitional Adverse Impacts:*

3.3.2.1 Consumers:

3.3.2.1.1 Allowance value should be distributed to mitigate cap-and-trade program cost impacts to consumers (particularly low-income consumers), including energy price impacts.

3.3.2.1.2 The distribution of allowance value, together with related regulatory policies, should minimize net cost increases to consumers by promoting investment in conservation and efficiency programs.

3.3.2.1.3 Any allowance value a jurisdiction may put towards efficiency should be additional to, and not a substitution for, utility conservation and efficiency programs and complementary policies.

3.3.2.2 Industry:

3.3.2.2.1 Allowance value should be distributed to mitigate cap-and-trade program cost impacts (including energy price impacts) to industrial entities in the region, particularly for those in industries that are GHG-intensive and have a limited ability to pass costs on to consumers of their products. Eligible industries will be determined based on further analysis. Such impacts can be related to carbon-intensive energy purchased or generated, and process emissions.

3.3.2.2.2 Allowance value should be distributed to ease worker and community transition.

3.3.2.2.3 Allowance value should be distributed to improve competitiveness of regional

industry, and prevent leakage of emissions, jobs, and industry to regions outside of the area covered by the program.

3.3.2.3 Workers: Allowance value should be used to support robust regional worker training and educational programs and supplement existing local, state/provincial programs and federal efforts.

3.3.3 Addressing adverse impacts of climate change on communities, human health, and natural resources.

3.3.3.1 *Mitigate climate change impacts on communities, human health and infrastructure and invest in adaptation planning, anticipation, and response.*

3.3.3.2 *Minimizing adverse impacts of climate change on natural resources.* Allowance value should be distributed to:

3.3.3.2.1 Develop and implement comprehensive regional and jurisdictional natural resource climate adaptation strategies with a focus on critical regional resources.

3.3.3.2.2 Enhance scientific capacity of jurisdictions to evaluate and address the impacts of climate change on fish, wildlife, and ecosystems.

3.4 Allowance Distribution: Mechanisms. The Advisory Group recognizes that the decision on whether to auction or allocate allowances resides ultimately with the jurisdictions and will depend on the purposes to be achieved through the allowance value.

3.4.1 The Advisory Group recommends establishing mechanisms in order to safeguard allowance value and ensure it is not diverted to non-climate related purposes. To the extent that auctioning is used, legal mechanisms must be put in place to ensure that auction revenues are not diverted to non-climate related purposes.

3.4.1.1 *Utility sector.* To the extent that free allocation is used, the Advisory Group recommends direct allocation of [some share of] allowances to local

distribution companies and load-serving entities, with conditions attached so as to ensure that:

3.4.1.1.1 Receipt of allowances is contingent on implementation of energy efficiency and conservation programs that benefit end-use consumers (particularly low-income consumers and energy-intensive industries).

3.4.1.1.2 Allowance value flows directly to end-use consumers including energy-intensive industries, or is otherwise used in a manner that indirectly flows through to the benefit of consumers through investments that lower GHG emissions and compliance costs

3.4.1.1.3 The recipients of the allowances are subject to firm and effective regulatory oversight.

3.4.1.2 *Industrial Sector.* To the extent that free allocation is used, some portion of allowances should be allocated based on historical emissions in order to mitigate adverse economic impacts of the program on industrial competitiveness and workers, and to help these industries transition to a low-carbon future. Distribution of these allowances should be contingent on implementation of mechanisms to achieve the industrial sector purposes laid out in section 3.3.2.2 above, including protecting workers. Receipt of this value should be contingent upon using it to mitigate economic harm and invest in low-carbon technologies and energy sources, and energy efficiency.

3.4.1.3 *Transportation sector.* Use of allowance value to facilitate technological transition and to mitigate costs to consumers and impacted commercial entities in this sector is discussed in sections 3.3.1 & 3.3.2. In addition, to the extent that free allocation is used, some portion of allowance value would be allocated to jurisdictions and/or municipalities for the following purposes: 1) development of transportation energy efficiency plans to reduce vehicle miles travels and improve system efficiency; 2) competitive funding for

implementation of the most carbon reducing projects in these plans; and 3) mitigate gas price impacts on vulnerable individuals, communities, and businesses, including through targeted incentives (e.g., for low-income consumers) to purchase more fuel efficient vehicles.

3.4.2 Consistent with our principles, the Advisory Group recommends that the basis for any free or fee-based allocation will be determined based on addressing economic harm (including mitigating energy price impacts during a transition period), accelerating transformational investment, and avoiding intra-regional competitive impacts. The Advisory Group will work on devising methods for achieving these objectives. This will apply to both existing and new emissions sources.

3.5 Regional Distribution of Allowance Value, or by Jurisdiction. The Advisory Group recommends a hybrid approach for the distribution of allowance value across the region. Some decisions over allowance distribution should be left to each jurisdiction, while other decisions should be harmonized across participating jurisdictions. The Advisory Group recommends that the hybrid approach seek to achieve the maximum achievable level of harmonization and consistency across participating jurisdictions in order to help minimize inter-jurisdictional economic competitiveness issues and ensure the most level playing field.

3.5.1 Decisions that should be harmonized across jurisdictions to the maximum extent possible include:

3.5.1.1 To the extent allowances are allocated, consistent procedures should be employed with the objective of minimizing intra-regional competitive concerns and anticompetitive outcomes.

3.5.1.2 Treatment of new entrants. Covered entity entrants to the cap-and-trade program should be treated similarly across all participating jurisdictions to the maximum extent possible.

3.5.1.3 The minimum percentage of allowances to auctioned, for price discovery and to help ensure market liquidity in the early years of the program

3.5.2 *Regional Low-Carbon Technology Commercialization Fund.* The Accord Advisory Group recommends establishment of a

competitive regional fund that is supported by allowance value in order to foster low-carbon technology demonstration, deployment and commercialization based on the shared technology priorities of this Advisory Group and the three MGA Energy Security and Climate Stewardship Platform advisory groups.

3.5.2.1 The fund will:

3.5.2.1.1 Ensure availability of investment funding needed under a cap and trade program;

3.5.2.1.2 Maximize regional coordination of R&D efforts, including coordination among research universities, and help attract capital investment to the region;

3.5.2.1.3 Award funds to projects based on a reverse auction or other cost-effective mechanism to maximize the performance of the overall investment portfolio and achieve the longer-term reduction goals of the cap and trade program. Under a reverse auction, project bidders commit to certain operational outcomes at a particular price based on the established performance criteria of the auction.

3.5.2.1.4 Provide for separate auctions within the overall fund in order to allow commercially riskier projects (e.g. higher levels of CO<sub>2</sub> capture or less tested technologies) to compete for support based on different performance and eligibility criteria.

3.5.2.2 Fund Purposes. Demonstration, deployment and commercialization purposes for a competitive fund should be based on MGA Platform priorities, including: 1) CCS technologies; 2) advanced biomass conversion technologies for biomass to liquids, SNG, and power; 3) other advanced efficiency, grid efficiency, and low-carbon energy technologies; 4) combined heat and power applications in the electric power and industrial sectors; 5) electricity storage; and 6) advanced low-carbon transportation technologies, including

low-carbon fuels, advanced vehicle batteries, and others. While separate reverse auction criteria may be used for each of these high-priority technology areas, the Accord jurisdictions will also consider how the regional fund can be leveraged to strengthen links between sectors, such as the utility and transportation sector, by targeting cross-cutting technologies or infrastructure.

3.5.2.3 Sources of Fund Revenues. The fund may initially be supported using revenues from a sector-specific or broader fee mechanism and initial allowance auction revenue. Over time, the fund will be increasingly supported by a transition to allowance value obtained either through auction or direct allocation of allowances.

3.5.2.4 Awarding of funding. Successful projects will receive fixed annual performance-based payments per: 1) ton of CO<sub>2</sub> sequestered (for technologies and projects involving CO<sub>2</sub> capture and storage); 2) MWhrs of electricity or BTUs of liquid fuels, syngas or SNG produced for renewable or near zero-carbon energy projects; or 3) other appropriate measure applicable to technology type to be determined by the jurisdictions.

3.5.2.5 Program Management. The Accord jurisdictions will jointly manage the fund consistent with the cap and trade program design principles, including developing appropriate funding categories, mechanisms and amounts, deadlines, eligibility and performance criteria. The jurisdictions will establish and revise technology goals based on the evolving status of emerging technologies and emissions reductions needs in different sectors, and the availability of alternative sources of technology funding.

3.6 Compliance Period. A compliance period is the length of time for which covered sources must submit allowances equivalent to their emissions, or face a penalty for failing to do so. The Advisory Group recommends that each compliance period should be 3 years in length.

3.7 Banking. The Advisory Group recommends that the cap-and-trade program should allow unlimited banking of allowances and offsets credits. Allowances or offsets received or purchased in one year,

therefore, can be banked and used in any subsequent year of the program.

- 3.8 Borrowing. The Advisory Group recommends that limited borrowing should be allowed from no more than two years beyond the end of the current compliance period, provided borrowed allowances should be paid back with some “interest”.

Early Action Credit. The Advisory Group recommends that early action should be recognized in the cap-and-trade program through a hybrid approach that rewards early actions using a limited pool of credits at the regional level, as well as allowing individual jurisdictions to further reward early action using allowances out of their own allowance budget.

#### 4.0 OFFSETS

- 4.1 Offsets Program. The Advisory Group recommends that the states and province develop an offsets component as part of the cap-and-trade program.

- 4.2 Offsets Requirements. Offsets must be real, additional, verifiable, permanent, and enforceable so that they do not compromise the integrity of the cap-and-trade program:

4.2.1 *Real*. Offsets must represent actual emission reductions and not artifacts of incomplete or inaccurate accounting. The effects of a project on GHG emissions must be comprehensively accounted for, and “leakage” in emissions must be factored into the quantification of emission reductions. Conservative assumptions should be used where there are uncertainties in quantifying emission reductions or removals.

4.2.2 *Additional*. The reductions resulting from offset projects must be shown to be “in addition to” reductions that would have occurred without the incentive provided by offset credit. To be eligible for offsets, offset projects cannot be required by law or regulations, and must exceed baseline criteria. The baseline should use standardized criteria (including but not limited to, performance standards, financial feasibility criteria, market penetration, and project start date) that serve to exclude “business as usual” projects from eligibility.

4.2.3 *Verifiable*. Offsets must result from projects or programs whose performance can be readily monitored and verified, and whose effects can be measured with reasonable precision and certainty.

- 4.2.4 *Permanent*. Emission reductions or removals must be backed by guarantees if they can be reversed, i.e., re-emitted to the atmosphere. For emission reductions or sequestration activities that can be reversed, adequate safeguards should be established to minimize the risk of reversal, or a mechanism should be provided for the replacement of those tons.
- 4.2.5 *Enforceable*. Offsets must be consistent with regulations and administrative rules that define their creation, provide for transparency, and meet defined standards of ownership to avoid double counting.
- 4.3 Regional Coordination and Reciprocity
- 4.3.1 The offsets program must be consistently implemented from jurisdiction to jurisdiction. To facilitate this, the Regional Administrative Organization established in 7.0 should help jurisdictions evaluate project types, offset protocols [and offset registries]. However, participating jurisdictions should make all final decisions [and retain regulatory authority to review decisions regarding individual projects].
- 4.3.2 All offset protocols used by participating jurisdictions should be reviewed and approved through a regional process. However, each participating jurisdiction reserves the right to select the regionally approved offset protocols for which it will provide application support, review and approval.
- 4.3.3 Offsets awarded by any participating jurisdiction should be eligible in every other participating jurisdiction.
- 4.4 Offset Protocol Development. The offset program should employ standards-based protocols to reduce the administrative burden of the program, and improve certainty for project developers. Initial offset project categories and evaluation protocols should be established before program launch. The following mechanism should be used to establish this initial list, and to incorporate additional categories and evaluation criteria over time.
- 4.4.1 Category evaluation and protocol development should be spearheaded by strong technical and scientific advisory committees.
- 4.4.1.1 Technical Committees would be established for each offset category being considered by signatory states and provinces. Technical Committees would be comprised of subject matter experts and would be tasked with drafting offset

project protocols. The Technical Committees should report their findings to the Scientific Committee.

- 4.4.1.2 The Scientific Committee is a standing body of scientists and experts with an in-depth understanding of climate science and offset program principles and implementation challenges. The Scientific Committee can accept, reject, or suggest modifications to the Technical Committees.
- 4.4.1.3 In developing those protocols, the Technical and Scientific Committees should consider the Offset Program Design Principles, Carbon Offset Requirements, and other guidelines agreed to by the signatory states and provinces.
- 4.4.2 In the interest of promoting transparency, protocols approved by the scientific committee should be made available for public comment.
- 4.4.3 Agency Heads of participating states and provinces would collectively consider, through a collaborative process, those public comments when deciding whether or not to adopt a protocol throughout the region.
- 4.4.4 At any time, anyone may propose protocols for new types of projects to the regional organization, for consideration pursuant to the procedures in 4.4.
- 4.4.5 Protocols for quantification of emission reductions/removals and for project monitoring should be as standardized to the extent possible, while ensuring accuracy. Ideally, there should only be one approved protocol for each type of project, but additional protocols may be adopted if warranted.
- 4.4.6 *Offsets Types.* Initial project categories should be identified and prioritized for protocol development under section 4.4 to the extent that they meet the following criteria:
  - 4.4.6.1 Offsets easily and credibly meet the Offset Program Design Principles and Carbon Offset Requirements;
  - 4.4.6.2 Offsets can incentivize new technologies or new practices;

- 4.4.6.3 It is likely that a project category would be unregulated under a Midwestern cap-and-trade program, or by complementary policies developed through the Greenhouse Gas Accord process;
  - 4.4.6.4 It is likely that a project category would be unregulated under a federal cap-and-trade program;
  - 4.4.6.5 There is stakeholder support for project categories;
  - 4.4.6.6 There is a high quantity of cost-effective reduction opportunities;
  - 4.4.6.7 There are environmental and economic co-benefits;
  - 4.4.6.8 Protocols already exist that employ standardized benchmark criteria for evaluating project categories; and
  - 4.4.6.9 There is administrative simplicity for project developers and state regulators.
- 4.5 Limits on Use of Offsets. The use of offsets should be constrained to provide for reductions from the covered sectors. The specific constraint on offsets use will be determined after review of the modeling results.
- 4.6 Geographical Location of Offsets.
- 4.6.1 In the initial compliance period, the geographic scope should be constrained to the Accord signatory jurisdictions and those states and provinces that have entered into a Memorandum of Understanding (MOU) with the Accord signatory jurisdictions.
    - 4.6.1.1 At a minimum that MOU should require the state or province to carry out certain administrative tasks related to evaluation of offset projects.
    - 4.6.1.2 States and provinces not a part of the Accord could also be required to have a GHG regulatory program of comparable or greater stringency than that established by the Accord.
    - 4.6.1.3 Participation of international offsets beyond the U.S. and Canada to be determined.

- 4.6.2 As the program evolves, states and provinces should consider incorporating the Clean Development Mechanism (CDM) and Joint Implementation (JI) programs.
- 4.6.3 Any determination about whether to allow offset credits from other regulatory offset programs should follow the procedures for adding offset project categories. Such decisions should be made by jurisdictions after thorough consideration by the Technical and Scientific Committees and public comment.
- 4.7 Offsets Project Review.
- 4.7.1 To maximize certainty for project developers, a two-step review process should be adopted for individual projects. The first step – a consistency determination – provides for preliminary review before project commencement. The second step – monitoring and verification – is the application for offset allowances equal to the actual emissions reductions or sequestrations demonstrated to have occurred at the project location.
- 4.7.2 Applications must be verified by accredited, independent, third-party verifiers.
- 4.7.3 Third-party verified applications must be reviewed by states or provinces.
- 4.7.4 To ensure rigor, periodic auditing should be performed consistently.
- 4.7.5 The regional offset program should be consistently implemented from jurisdiction to jurisdiction.
- 4.7.6 Project applications should be filed in accordance with the following guidelines:
- 4.7.6.1 For an offset project located in one participating jurisdiction (in whole or in part), the consistency application must be filed with the appropriate regulatory agency in that jurisdiction.
- 4.7.6.2 For an offset project located wholly outside all participating jurisdictions, the consistency application may be filed with the appropriate regulatory agency in any one participating jurisdiction, provided a copy of the consistency application is also filed with the cooperating regulatory agency in the jurisdiction where the offset project is located.

- 4.7.6.3 For an offset project located in more than one participating jurisdiction, the consistency application must be filed in the participating jurisdiction where the larger part of the CO<sub>2</sub> equivalent emissions reduction or carbon sequestration due to the offset project is projected to occur.
- 4.7.6.4 If the jurisdiction of primary location does not provide services for a particular offset category, a project may apply to any jurisdiction that provides such services.

## 5.0 MANDATORY EMISSIONS REPORTING

- 5.1 Start Date. Mandatory reporting of emissions for the six families of greenhouse gases included under the cap (carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride) will commence one year before the program start date as stipulated in 7.1, with data collection beginning two years before the start date.
  - 5.1.1 Prior to the start of the mandatory reporting program, the Accord jurisdictions will establish the essential requirements for reporting by all entities and facilities required to report in each Accord jurisdiction. The jurisdictions should avoid duplicative state/provincial and federal reporting requirements.
  - 5.1.2 For purposes of converting emissions to CO<sub>2</sub>e, it is recommended that the values listed in the GWP table contained in The Climate Registry (TCR) General Reporting Protocol, Version 1.1 be used.
- 5.2 Threshold for Reporting. The entities and facilities subject to reporting are:
  - 5.2.1 Electric generating units and other entities within covered sectors that have annual emissions equal to or greater than [to be determined] metric tons of CO<sub>2</sub>e. This includes all entities included under the cap as well as some below the cap threshold.
    - 5.2.1.1 Level of Reporting Required. Only direct, stationary combustion and process emission sources are required to report. Sources within a facility with minimal contribution to the facility's emissions profile may be exempted from reporting.

- 5.2.2 Data collected in any one jurisdiction will be made available to all Accord jurisdictions, as appropriate, given confidentiality concerns.
- 5.2.3 Nothing in the Accord program design would limit any state or province's discretion to require reporting earlier, at lower thresholds, or for entities not covered by the cap-and-trade program.
- 5.3 Reporting Authority. The Advisory Group recommends using the Climate Registry Information System (CRIS) (hosted and managed by TCR), modified to support mandatory reporting subject to verification and auditing, to collect and manage the Accord's regional database of emissions information. In addition, jurisdictions may use the CRIS Common Reporting Framework to meet their individual jurisdictional database needs for emission collection, verification, and compliance.
- 5.4 Costs will be taken into account when considering verification requirements.

## 6.0 COMPLIANCE AND ENFORCEMENT RECOMMENDATIONS

- 6.1 Each participating jurisdiction will retain and/or enhance its regulatory and enforcement authority and responsibilities to enforce compliance with the cap-and-trade program within its own jurisdiction.
- 6.2 Each covered entity or facility will demonstrate compliance with the cap-and-trade program by surrendering sufficient allowances following the end of each compliance period. To ensure transparency and maintain public confidence, data not subject to confidentiality from emissions reports, allowances, and offsets that are used for compliance will be made public in a timely manner.
- 6.3 If by the deadline for demonstrating compliance a covered entity or facility does not have sufficient allowances to cover its emissions for the previous compliance period, it shall be required to surrender [XX allowances and/or \$YY] for every metric ton of CO<sub>2</sub>e not covered by an allowance at the deadline. This does not preclude other penalties allowed under individual state or provincial laws.
- 6.4 The Accord jurisdictions recognize that during the first compliance period, both they and the entities and facilities covered by the cap-and-trade program will likely encounter issues that arise in the

implementation of any new program. Consequently, the Accord jurisdictions are committed to providing appropriate technical and other compliance assistance to the program participants.

- 6.5 The participating jurisdictions will ensure accounting systems are in place to prevent using allowances, tradable units, and offsets more than once for compliance.

## 7.0 PROGRAM IMPLEMENTATION, COORDINATION, AND REVIEW

- 7.1 Start Date: The first compliance period for the cap and trade program will begin January 1, 2012.
- 7.2 A Regional Administrative Organization will be established to reduce administrative costs and improve program transparency and consistency. The Organization will include a Board staffed by representatives from each participating jurisdiction, and may also employ additional staff. While the Organization will provide market oversight in addition to oversight provided by participating jurisdictions, it will be a technical assistance organization only and will not have regulatory or enforcement authority itself. The functions the organizations may serve include:
  - 7.2.1 Coordinate the regional auction of allowances;
  - 7.2.2 Track emissions and provide public information on progress towards the Accord's regional goal;
  - 7.2.3 Monitor and report on market activity, including any potential market manipulation;
  - 7.2.4 Serve as a forum for Accord Partner jurisdictions to update one another on program progress;
  - 7.2.5 Coordinate review and adoption of protocols for offsets;
  - 7.2.6 Coordinate review and adoption of updated reporting protocols;
  - 7.2.7 Coordinate review and issuing of offset credits and provide public information as appropriate; and
  - 7.2.8 Suggest criteria and means to accredit service providers to deliver validation and verification services.
  - 7.2.9 Facilitate and coordinate periodic, comprehensive program reviews.
- 7.3 Program Review. The cap-and-trade program will undergo, once in each compliance period, comprehensive review and revision, coordinated through the Regional Administrative Organization. This

review will include a full assessment of the program, consistent with program design principles, and a determination of whether adjustments need to be made to the program based on its environmental results and market performance, as well as future scientific findings and technology developments. In particular, the review process will:

- 7.3.1 Review program emissions targets and trajectories;
- 7.3.2 Assess market prices, trends and economic impacts, including unanticipated price volatility, and consider revisions to cost containment measures;
- 7.3.3 Consider adjustments to program scope of coverage, thresholds for inclusion and/or reporting, and point of regulation;
- 7.3.4 Consider the inclusion of new partner jurisdictions;
- 7.3.5 Review compliance and enforcement provisions;
- 7.3.6 Review offsets protocols;
- 7.3.7 Review allowance distribution methodologies;
- 7.3.8 Review existing complementary policies, and consider whether additional complementary policies are required to help meet program goals; and
- 7.3.9 Recommend revisions for consideration by the jurisdictions.