

# Western Climate Initiative

## Summary of Key Provisions

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**Environment  
Northeast**

The Western Climate Initiative (WCI) is a collaboration of seven Western American States and four Canadian Provinces working to establish a regional cap & trade system to reduce emissions of global warming pollution 15% below 2005 levels by 2020. Launched in February 2007, the WCI is progressing through the design phase, with a target effective date of January 1, 2012. On September 23<sup>rd</sup>, 2008 the WCI released Design Recommendations (available at [www.westernclimateinitiative.org](http://www.westernclimateinitiative.org)), and what follows is a summary of key provisions by ENE (Environment Northeast), a stakeholder in the Regional Greenhouse Gas Initiative (RGGI) taking effect January 1<sup>st</sup>, 2009.

### Program Scope

The WCI covers emissions of six greenhouse gases (carbon dioxide, methane, nitrous oxide, sulfur hexafluoride, hydrofluorocarbons, and perfluorocarbons) from electricity generators, industrial facilities, fossil fuel combustion, and, beginning in 2015, transportation. Only entities with annual emissions greater than 25,000 metric tons of carbon dioxide equivalent (CO<sub>2</sub>e) will be covered by WCI (which for the electric sector is roughly equivalent to a 8 MW natural gas power plant)

### Cap & Rate of Decline

The initial regional cap will be set at the best estimate of expected actual emissions from covered sources at the start of the program. The cap will be reduced annually through 2020 to achieve a 15% reduction of GHG emissions below 2005 levels. Covered sources must submit allowances equivalent to their emissions in three year compliance periods, beginning in 2012 (2015 for transportation).

### Distribution of Allowances

Each partner jurisdiction will determine how to distribute allowances, within certain constraints:

- A portion of the value represented by each jurisdiction's allowance budget must be used to promote regional objectives, including: energy efficiency; renewable energy; energy-related research and development, with particular reference to carbon capture & sequestration (CCS); emission reductions and sequestration from uncapped sectors (forestry, agriculture, etc.); and climate change adaptation.
- At least 10% of allowances must be auctioned in the first compliance period (2012-2015), with the minimum percentage increasing to 25% in 2020. WCI partner jurisdictions aspire to auction a higher percentage of allowances over time, possibly 100%.

*ENE Comment: all allowances should be sold at auctions from the initiation of the program. Universal auctions send the clearest market signal to reduce emissions, and additionally provide revenue necessary to pursue energy efficiency and other strategic investments that reduce emissions and lower compliance costs.*

### What is a Cap-and Trade Program?

Cap and trade programs are designed to reduce emissions from a group of emitters, by using the power of the market. Regulators first establish a "cap," or a limit on the total amount firms can pollute. For WCI the cap is the maximum amount of Greenhouse Gases (GHGs) that covered sources are allowed to put out, collectively, across the region.

Total emissions allowed under the cap are then divided into individual permits or allowances, with one permit required for each unit of GHG emitted. Individual facilities must own an allowance for every ton emitted.

Because the cap restricts the amount of carbon that can be emitted, the permits take on a financial value. This is where trading comes in. Companies that do not have enough permits must either cut their emissions or buy spare allowances from others. Dirtier sources requiring more allowances—such as coal plants—may buy permits from cleaner sources, such as natural gas plants, and therefore "pay" the facilities that can reduce their emissions more cheaply. The effect is to decrease emissions at the lowest cost, while allowing companies flexibility in meeting the cap.

Cap and trade programs have reduced or eliminated lead in gasoline, ozone-depleting chemicals (such as CFC's), nitrogen oxides (NO<sub>x</sub>) a primary component of smog, and sulfur dioxide (SO<sub>2</sub>), a leading cause of acid rain.

- To manage the risk of inadvertently setting the cap too high, a reserve or minimum price will be established for the first 5% of allowances offered at an auction. If the reserve price is not met, unsold allowances may be retired or withheld until later auctions.

## Cost Containment

**Early Reduction Allowances** (ERAs) will be awarded to encourage covered sources to reduce emissions prior to implementation of the cap. By the end of 2009 WCI partner jurisdictions will jointly establish criteria to determine which reductions will be eligible for ERAs from the 2008-2011 pre-compliance period. Any ERAs issued will be in addition to the 2012 allowance budget (cap).

*ENE Comment: while proactive sources should be rewarded for early action, adding ERAs to the cap risks inflating the cap to a level that would not constrain emissions and would thus undermine the imperative to reduce emissions through additional clean energy investments. Significant use of an auction rewards early actors who will not have to purchase as many allowances as their dirty competitors.*

**Banking** of allowances will be allowed without limitation, allowing buyers to retain or use for future compliance any unused allowances.

**Offsets** may be used to achieve 49% of emission reductions. The majority of emission reductions (51%) will occur in covered sectors, but the WCI will allow for a significant quantity of “real, surplus/ additional, verifiable and permanent” offsets to be developed in the following sectors:

- Agriculture (soil sequestration and manure management);
- Forestry (afforestation/reforestation, forest management, forest preservation/conservation, forest products); and
- Waste management (landfill gas and wastewater management)

Starting in 2009 the WCI jurisdictions will coordinate to develop protocols for the project types above, and offsets from other systems (such as the Clean Development Mechanism) may be utilized in the WCI so long as offset projects “are subject to comparably rigorous oversight, validation, verification, and enforcement as those located within the WCI jurisdictions.”

*ENE Comment: the limit on offsets should be applied to the regulated entity on the basis of a percent of the entity’s emissions. In order to meet the 49% limit on offset use the percentage of an entity’s emissions would be a very small percentage at the beginning of the program and grow over time.*



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Environment Northeast is a nonprofit research and advocacy organization focusing on the Northeastern United States and Eastern Canada. Our mission is to address large-scale environmental challenges that threaten regional ecosystems, human health, or the management of significant natural resources. We use policy analysis, collaborative problem solving, and advocacy to advance the environmental and economic sustainability of the region.