

## **Statement of Issue**

The Western Climate Initiative (WCI) is a multi-jurisdictional collaboration intended to identify, evaluate and implement policies to reduce regional greenhouse gas (GHG) emissions. Eleven WCI partners, consisting of four provinces and seven states<sup>1</sup>, are recommending the implementation of a regional cap and trade program. This multi-sector program is the most comprehensive carbon-reduction strategy designed to date and is a cornerstone of the partners' target of reducing emissions by 15 percent below 2005 levels, by 2020.

On September 23<sup>rd</sup>, 2008, WCI Partners released their design recommendations for the cap and trade program. A detailed work plan is expected to be provided in the coming year.

## **Background**

- The eleven WCI partners represent 70 percent of Canadian GDP and 20 percent of U.S. GDP. The cap and trade program covers almost 90% of the region's GHG emissions<sup>2</sup>. This includes emissions from;
  - Electricity generation, including imports.
  - Industrial processes.
  - Industrial and commercial fossil fuel combustion.
  - Gas and diesel consumption for transportation.
  - Residential fuel use.
- The design is intended to lower the cost of reaching GHG reduction targets and to mitigate the impact on consumers and businesses. Other benefits identified include; encouraging growth in green technologies, building a clean-energy economy and reducing dependence on foreign oil.
- The program will be phased in stages.
  1. 2011 - Partners will begin reporting emissions that occurred in 2010.
  2. Jan. 2012 – The cap and trade program will open for electricity generation, industrial combustion at large sources and industrial processes with adequate measurement methods.
    - Emissions covered under this first compliance period account for about 50 percent of regional emissions.
    - Covered entities must submit adequate allowances to cover emissions emitted within each three-year compliance period.
  3. Jan. 2015 – Cap and trade program expanded for all remaining emissions.
- The WCI program is designed to be a model for, work with, or be integrated into any future national or international emissions reductions programs.

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<sup>1</sup> Canada: British Columbia, Manitoba, Ontario, Quebec

U.S.: Arizona, California, New Mexico, Oregon, Washington, Montana, Utah

In addition, there is one province (Saskatchewan), six states and six Mexican states that have been granted "Observer" status.

<sup>2</sup> The six main greenhouse gases covered are carbon dioxide, methane, nitrous oxide, hydro fluorocarbons (HFCs), per fluorocarbons (PFCs) and sulfur hexafluoride.

## Program Design

- Cap and trade establishes a pre-defined, mandatory and enforceable limit on GHG emissions and lets the market determine the most cost-efficient way of achieving the limit.
  - Each state or provincial partner will be given an emission allowance budget consistent with its jurisdiction-specific target for 2020. While the overall WCI Partners' goal is a 15 percent reduction by 2020, each partner jurisdiction may have different targets based on varying levels of achievability.
  - Each partner has the flexibility to allocate its allowance budget within its jurisdiction. It may set a limit ("cap") on emissions from a sector or group of sectors.
  - Tradable emissions allowances, equal to the total emissions limit, are distributed to entities through auction or given at no cost. The program requires a minimum 10% of allowances be auctioned in 2012, and at least 25% by 2020. Partners have agreed that a portion of auction revenues are to be used for projects with region wide benefits, such as energy efficiency and low-carbon technologies.
- Regional governments will specify who is obligated to hold allowances to cover their emissions. The entity or facility with compliance obligations is the **point of regulation**. Entities or facilities emitting greater than an initial emissions threshold of 25,000 metric tons of carbon dioxide equivalents (CO<sub>2</sub>e) will have a regulatory compliance obligation. This threshold will be revisited based on reported emissions data.
- Entities can purchase allowances from auction, buy and sell them on secondary markets or bank them for future use. Entities may be able to purchase a limited number of offset credits, reflecting reduced emissions in other sectors not covered by the program (i.e.: forestry, agriculture). Allowances from other future comparable cap and trade programs could potentially also be purchased. The specifics of these program features have yet to be determined.
- If a covered entity or facility does not have sufficient allowances at the end of a compliance period, they are required to submit three allowances for every one the entity has a deficit obligation. Each WCI jurisdiction can establish additional penalties, including civil and criminal penalties through regulation or legislation, to provide another level of deterrence.

## Recommended Reporting Requirements

- Regulated entities will be required to use a consistent reporting methodology, validated by an independent third party. Mandatory measurement and monitoring will begin January 2010, with reporting for 2010 emissions in 2011. The essential requirements for reporting have yet to be firmly established, however an emphasis has been put on harmonization and flexibility with existing programs.
- Entities with annual emissions of 10,000 metric tons of CO<sub>2</sub>e are required to report. This reporting threshold is less than that used for inclusion in the cap and trade program. This will assist in determining the appropriateness of the existing cap and trade threshold, monitoring potential leakages and supporting the exclusion of sub-threshold entities.

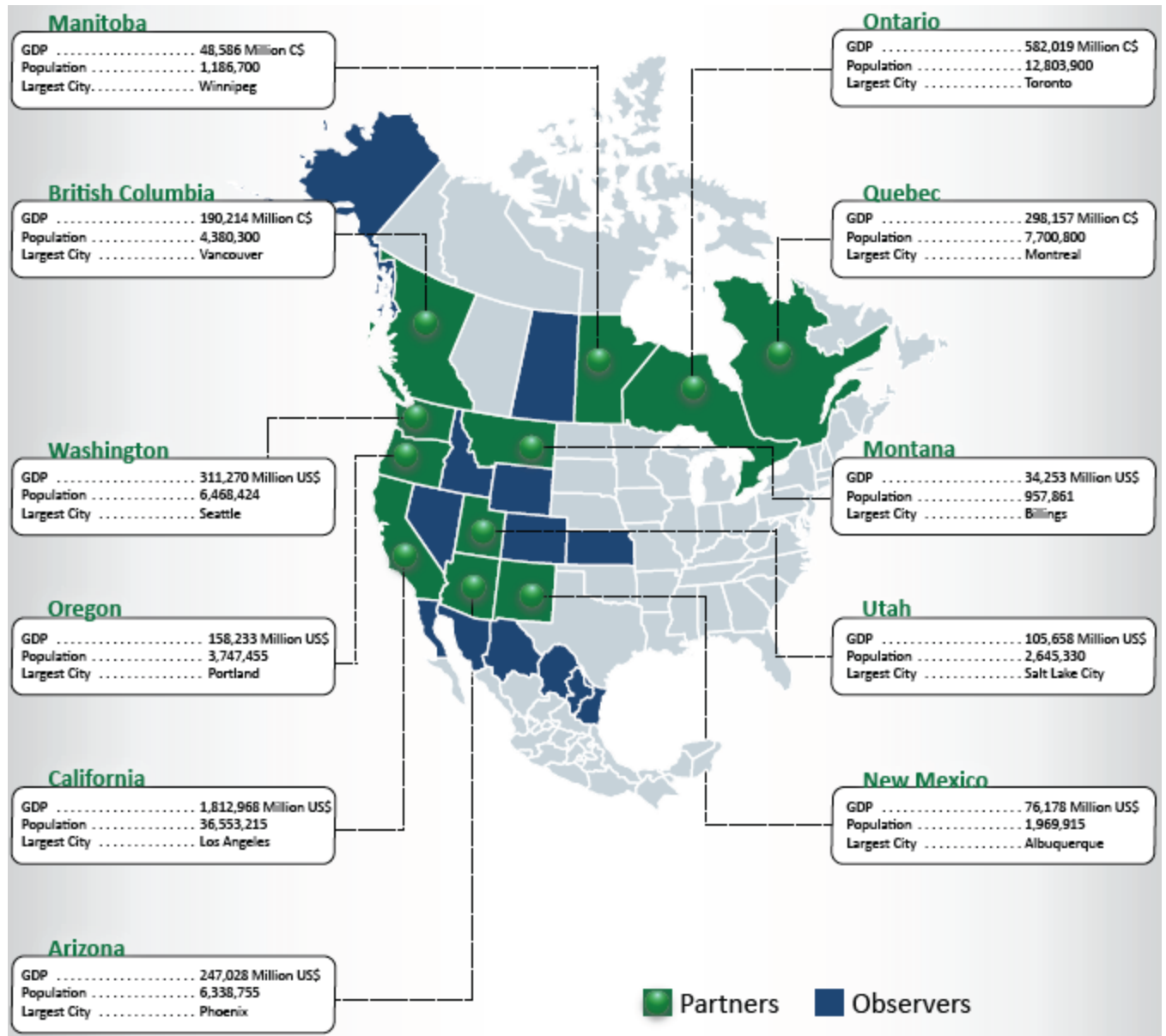
## Electricity Sector Issues

- The setting of individual WCI Partner allowance budgets takes into account the production and consumption of electricity, and the resources supplying that electricity.
- The point of regulation for entities generating and/or delivering electricity is at the **First Jurisdictional Deliverer (FJD)**. This is defined as:
  1. the facility generating power within the WCI Partner jurisdiction
  2. the first entity delivering electricity generated outside the region to be consumed within a WCI partner jurisdiction
- WCI Partners recognize there are significant challenges when covering emissions from imports.
  - The interconnected nature of the electricity grid creates a concern regarding the leakage of emissions to non-WCI jurisdictions. The First Jurisdictional Deliverer attempts to address this problem, which is based on California's "First Deliverer" model.
  - Regulation of imports has been identified as being necessary, since ignoring imports would include only approximately 74% of electricity sector emissions under WCI3.
  - This has some obstacles in implementation, such as tracking emissions from the point of generation to the point of consumption, which need to be resolved. It is presently unclear what emissions would be associated with an import. A series of stakeholder technical working conferences are being held to provide opportunities to work on these FJD issues.
  - One recommendation is to make a distinction between "specified" and "unspecified" imports. **Specified imports** include known long-term contracts and owned generation in non-WCI jurisdictions. The actual emissions intensity rates for the specified generator, usually through a NERC e-tag, would be applied to the import. **Unspecified imports** include market purchases from a power pool or short-term contracts, and would have a "deemed rate" applied.
  - The deemed rate will be a pre-defined emissions intensity unique to the exporting non-WCI partner jurisdiction. There are several ways this deemed rate could be derived. At the most recent WCI Electricity Subcommittee meeting, the concept of a single default rate based on the fuel type used for marginal generation was discussed, although no decisions have been made.
- Stakeholders have solicited the WCI to recognize the voluntary market for renewable energy credits (RECs), by setting aside some allowances to reward or incent renewable investments. Each partner will have the discretion to "set-aside" allowances for specific purposes.
- Early Reduction Allowances reward entities to reduce GHG emissions after Jan, 2008 before the start of the first compliance period. These allowances will be in addition to the 2012 allowance budgets. WCI Partners will jointly establish the criteria for eligibility in 2009. These reductions should be voluntary, additional/surplus, real, verifiable, permanent and enforceable. In the case of Ontario, it is yet to be determined how these Early Reduction Allowances will be applied to any reductions in OPG coal generation in 2009 and 2010.
- WCI Partners are considering how to evaluate the implications of combined heat and power generation (cogen) into the program design.

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<sup>3</sup> This analysis performed by E3 excludes the three eastern provinces.

# WCI Partner Jurisdictions



Source: Western Climate Initiative, *Design Recommendations for the WCI Regional Cap and Trade Program*