

Public Meeting

Use of Allowance Set Asides in a Cap-and-Trade Program

May 18, 2009
California Air Resources Board

California Cap-and-Trade Rulemaking Timeline

- Focus in 2009: work through implications of different issues and policy decisions
- Focus in 2010: finalize program design and regulatory language
- Late 2010: Board consideration of cap-and-trade regulation
- Extensive public process throughout

Purpose of Meeting

- Discuss approaches for the potential use of set-asides in a California cap-and-trade program
- Stakeholders are asked to provide written comments on this topic to ARB by June 12th (to ccworkshops@arb.ca.gov)

Outline for Today's Presentation

- Define Allowance Set-Aside
- Policy and Design Considerations of Allowance Set-Aside Program
- Examples
- Discussion

Meeting Agenda

1:30-1:35	Introductions and Opening Remarks
1:35-2:00	Staff Presentation
2:00-4:20	Roundtable Discussion and Questions and Answers
4:20-4:30	Closing Remarks and Next Steps

What Are Set-Asides?

Set-asides are a pool of allowances reserved for specific purposes, such as:

- Rewarding early action
- Incentives for energy efficiency, water efficiency and land use planning
- Recognition of voluntary emissions reductions
- Recognize projects that reduce emissions in low-income or disadvantaged communities

Policy Considerations

- Can allowance set-asides provide a useful tool for achieving AB 32 goals?
- Would this type of incentive and recognition approach achieve more than alternative approaches (e.g., monetary incentives, energy efficiency programs)?

Policy Considerations (2)

- Would allowance set-asides strengthen or complicate the cap-and-trade program?
 - Would set asides raise the cost of remaining allowances?
 - Would set aside requirements raise compliance costs to project proponents or capped sources enough to discourage their use?

Approaches for Using Set-Aside Allowances

- Example: Retire set-aside allowances on behalf of reductions achieved by qualifying projects, such as voluntary renewables
- Example: Distribute allowances to those taking action based on reductions achieved
 - Giving allowances would recognize emission reduction activities
 - Value would help recoup project investment
 - *Consideration*: Similar incentives might be achieved through distribution of revenue from allowance auctions

Design Considerations for Set-Aside Programs

General principles for calculating reductions

- Methods must be measurable, accurate and replicable
- Emission reductions must be verified
 - Periodic review to ensure reductions continue over life of the project
- Periodic review of methodologies

Design Considerations for Set-Aside Programs (2)

Should allowance set-asides be based on specific considerations?

- Permanent design feature or decline over time
- Geographic
 - Within the State
 - Within the WCI region
 - No limits
- Achievement of co-benefits

Design Considerations for Set-Aside Programs (3)

What eligibility requirements should apply to set-asides projects?

– Examples:

- Methodology that prevents potential double counting
- Specification of qualifying types of projects based on quantification criteria
- Applicability of projects that may be funded through other revenue streams

An Existing Set-Aside Program

Regional Greenhouse Gas Initiative (RGGI)

- Limited to voluntary renewable energy projects
- Sets aside allowances for every MWh sold into voluntary market
- Retires allowances from the cap to account for these voluntary purchases

Set-Aside Program Concepts

Example 1: Voluntary Renewable Energy

Retire allowances associated with GHG reductions from a renewable energy generation project

- Advantages:
 - Additional reductions from capped sectors
- Disadvantages:
 - Fewer allowances to obligated entities in the cap
 - Could increase allowance price depending on extent of set-aside program
- *Unknown*: How much of a demand in new renewable generation would set asides encourage

Set-Aside Program Concepts (2)

Example 2: Energy Efficiency

- Allowances provided to project proponent for energy efficiency projects that help achieve electricity sector goals
- Allowances are sold back into the market to help defray costs of the project

Set-Aside Program Concepts (3)

Example 2: Energy Efficiency (cont'd.)

- Advantages:
 - Potential for greater penetration of economy-wide energy efficiency
 - Supports California energy efficiency goals
- Disadvantages:
 - Allowance prices are variable and may not adequately recover investment
 - Potentially high administrative/tracking costs

Set-Aside Program Concepts (4)

Example 2: Energy Efficiency (cont'd.)

- *Unknown:*
 - May be difficult to adequately quantify and verify reductions
 - Who would get credits – multiple participants and funding sources

Key Questions for Stakeholder Discussion

- Are set-asides an appropriate mechanism for achieving AB 32 policy goals?
- What other mechanisms may be preferable to incentivize reductions?
- How should set-aside allowances be distributed?

Key Questions for Stakeholder Discussion (2)

- What specific eligibility criteria could be imposed, consistent with AB 32 goals?
- What program limits should be considered (e.g., quantity, geographic location, other)?

Team Leads for Cap & Trade Rulemaking

Sam Wade, Mary Jane Coombs	Cap setting and allowance distribution
Ray Olsson	Market operations and oversight
Brieanne Aguila	Offsets and cap-and-trade project manager
Claudia Orlando	Electricity
Joshua Cunningham	Transportation
Manpreet Mattu	Reporting Energy efficiency
Bruce Tuter, Mihoyo Fuji	Industrial sectors
Karin Donhowe	Natural gas for residential and commercial
Mihoyo Fuji	Marginal abatement costs and leakage related issues
David Kennedy, Stephen Shelby, Barbara Bamberger, Mihoyo Fuji, Jeannie Blakeslee, Judy Nottoli, Jerry Hart	Impact analyses (environmental, economic, localized, small business, public health)

For More Information...

- ARB's Cap-and-Trade Web Site
 - <http://www.arb.ca.gov/cc/capandtrade/capandtrade.htm>
- To stay informed, sign up for the Cap-and-Trade listserv:
 - http://www.arb.ca.gov/listserv/listserv_ind.php?listname=capandtrade
- Western Climate Initiative
 - <http://www.westernclimateinitiative.org>