
California Environmental Protection
Agency Market Advisory Committee:
Process Update

April 30, 2007

Background

- Six working groups:
 - Environmental Justice
 - Data
 - Scope of Regulation
 - Electricity Sector and Leakage
 - Offsets and Linkage
 - Allocation; Credit for Early Action
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General Strategies

- Propose a cap-and-trade system consistent with design principles and with fundamental goals of:
 - Environmental integrity
 - Cost-effectiveness
 - Fairness
 - Simplicity

 - Learn from past experience
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Environmental Justice

- An Environmental Justice Working Group has been meeting with members of the Global Warming Environmental Justice Advisory Committee
 - The meetings have helped identify major EJ concerns
 - This information helps guide decisions about market design
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Data

- A Data Working Group has been established to:
 - Identify major data needs for the development of a market
 - Address technical and administrative feasibility of monitoring
 - Information about current and future data availability is highly relevant to design choices such as the scope of the cap-and-trade program
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Design Elements

Design Dimensions:

Stringency of the Cap

- The Cap-and-trade program should, in combination with other policies, achieve the 2020 target
 - The overall cap would approach the 2020 level gradually. MAC is investigating how quickly to approach the 2020 level.
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Design Dimensions:

Scope

- General questions:
 - Which gases to cover?
 - Which sources (or sectors) to cover?
 - Need to balance:
 - Advantage of broader coverage: more opportunities for low-cost reductions
 - Disadvantage of broader coverage: higher administrative (monitoring) costs
 - Upstream, downstream, and hybrid approaches are under consideration
 - Transportation sector poses specific difficulties
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Design Dimensions:

Addressing Leakage

- Leakage issue arises in connection with any imported goods and services
 - Important that treatment of imports be consistent with Interstate Commerce Clause.
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Design Dimensions:

Addressing Leakage, cont'd.

- Leakage is especially significant with regard to electricity sector
 - The California Public Utilities Commission (PUC), in cooperation with the California Energy Commission, is advancing a load-based cap via regulation. This approach addresses the issue of leakage. The PUC's design also promotes energy efficiency and clean energy.
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Design Dimensions:

Addressing Leakage, cont'd.

- The MAC is examining several approaches to leakage in the electricity sector, including:
 - A **load-based cap** covering both in-state and out-of-state generation via regulation of load-serving entities (LSEs). (This is similar to the approach endorsed by the PUC.)
 - A **hybrid cap** in which California generators are subject to a generation-based (or source-based) cap, while electricity imports are subject to a load-based cap.
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Design Dimensions:

Auctioning vs. Free Allocation

- Auctioning provides an especially efficient source of revenue to California
 - Free allocation can reduce the cost-burden on regulated entities
 - Alternatives include 100% auctioning, 100% free allocation, and combinations of the two.
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Design Dimensions:

Offsets

- Offsets are reductions obtained from entities not subject to an existing cap and trade system
 - Rationale: Potential to yield additional low-cost emissions-reduction opportunities
 - Offsets can be limited in quantity and geography to achieve programmatic goals. Should offsets outside of California be restricted?
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Design Dimensions:

Credit for Early Action

- “Early action” refers to emissions reductions undertaken by a source before that source is covered within the cap-and-trade program
 - Credit for early action can reward and thus promote earlier reductions under a market system
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Future Plans

- The MAC hopes to converge on major design decisions in the near future
 - It will release its draft recommendations in May.
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Public Comments

- Please email public comments to:
climatechange@calepa.ca.gov