State and Regional GHG Emission Trading Systems

While Congress has prohibited EPA from expending any funds to implement the Kyoto Protocol, individual states are beginning to take actions to their GHG emissions. Thirty-one states and one tribe have joined the Climate Registry, a collaborative effort to develop and manage a common GHG emissions reporting system.

Regional Greenhouse Gas Initiative ("RGGI")-

RGGI is currently the only mandatory carbon trading program in the United States. Ten Northeast and Mid-Western states (Connecticut, Delaware, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island and Vermont) have agreed to implement a regional cap and trading program to reduce CO2 emissions from power plants with generating at least 25 megawatts. Power plants in the RGGI states must achieve CO2 emissions reductions of 10 percent by 2019**.** [1]

Each state will be assigned an annual CO2 Budget Trading Program budget. Each State must set aside 25% of their RGGI allowances for their "general consumer or strategic energy purpose account". The remaining RGGI allowances will then be allocated among the emitting power sources within the state. Each RGGI allowance will allow a regulated source to emit one ton of CO2 emissions or CO2 equivalent (CO2e).

Emitters that do not have sufficient RGGI allowances will be required to purchase them on the market. The allowances will be sold through a public auction for certain compliance periods known as "vintages". All vintages within any RGGI state for a particular year will be offered for sale prior to the end of that compliance period. The first RGGI compliance period runs for three years.

The first auction of 1,000 allowances was planned for September 2008 and the second auction will take place in December 2008. The sale of allowances will occur on a quarterly basis in lot sizes of 1,000 allowances. Any market participants may participate in the auction. However, they will need to demonstrate financial capability to complete purchases in the forms of letters of credit or bonding.

The initial auction will occur in a single round, using a uniform-price, sealed-bid auction format. Depending on market conditions, RGGI will allow multi-period auctions using an ascending price format. A reserve price of $1.86 per allowance will apply to the first auction. After the first auction, the reserve price will be the higher of $1.86 or 80% of the current market price, based on the Consumer Price Index. Up to 50% of future allowance vintages will be auctioned, for periods extending up to four allocation years into the future. However, individual bidders are limited to a maximum purchase in a single auction of 25% of the allowances offered for sale in any single auction Sources with excess RGGI allowances may sell such allowances to other emitters or bank them for future use.

In addition to allowances, emitters can meet their target by purchasing offset credits. Offsets may be issued to verify reduction projects anywhere within the United States. Eligible offset projects may include emission reductions implemented through landfill methane standards, sulphur hexafluoride emissions reductions, CO_2 sequestration through forestation, increased fossil fuel energy efficiency, methane capture via agricultural practices; and capture of fugitive emissions from natural gas distribution facilities. For offsets from non-participating states, sources may be awarded one short ton of credit for every two short tons of verified reductions.

Western Climate Initiative ("WCI")

Six Western states and two Canadian provinces Arizona, California, New Mexico, Oregon, Utah, Washington, British Columbia, and Manitoba) have agreed to reduce aggregate GHG emissions by 15 percent below 2005 levels by 2020. WCI is broader than the RGGI since the WCI applies to all sectors of the state economies. In addition, the WCI agreement applies to all Kyoto GHGs (CO_2, methane, nitrous oxide, hydrofluoucarbons, perfluorocarbons and sulfur hexafluoride) and not just CO_2.

Individual member of WCI have agreed to achieve GHG reductions ranging from 11% (Washington) to 32% (Oregon) by 2020. These aggregate regional reduction goals do not replace individual GHG emissions reduction targets established by the individual WCI members. It is anticipated that WCI members will establish a cap and trade program for the covered GHG emissions.

Preliminary planning suggests that large stationary sources and industrial process emissions would be regulated at the point of combustion with thresholds set between 10,000 and 25,000 metric tons of CO_2e per facility. It also appears that fossil fuel production and processing emissions would be regulated at the facility level such as the oil and gas field, gas processing plant, or coal mine. In addition, the WCI scoping committee recommended that transportation fuels and dispersed residential and commercial fuel combustion be targeted for abatement either as part of a cap-and-trade program or through alternative fiscal or regulatory policies.

The limited scope suggested for the initial phase of the cap-and-trade program suggest that less than 50% of the GHG emissions in the region would be covered and will likely be insufficient to meet the WCI emission reduction target. If transportation fuels and residential and commercial fuel combustion are included in the trading program, it is estimated that this would increase coverage to approximately 80% of the total GHG emissions of the WCI partners.

The WCI appears to be poised to allow use of offsets using both a standardized and per project approach to approving offset projects. The standardized approach would create a set of pre-approved project types and develop a set of protocols for determining whether a particular project would receive offset credit. The project-specific approach would allow innovative projects that were not pre-approved to become eligible for offset credit. The WCI subcommittee reviewing offsets recommended that limits be placed on the quantity of offsets usable for compliance by regulated entities to ensure that significant direct GHG emission reductions take place but did not recommend any specific limits. Projects located anywhere in the United States, Canada or Mexico would be eligible for offsets so long as the offsets meet appropriate verification standards. Offsets and allowances from other regional trading systems, such as RGGI would be eligible for offsets but WCI is considering affording priority to offsets generated within the WCI region.

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New England Governors/Eastern Canadian Premiers Climate Change Auction Plan ("NEG-ECP")

Six states and 4 provinces agreed to implement a variety of programs and policies to reduce GHG emissions to 1990 levels by 2010 and achieve another 10% reduction by 2020. In 2006, the NEG-ECP members recommended implementation of a cap and trade program similar to RGGI.

Midwestern Greenhouse Gas Reduction Accord-

Six states and one Canadian province (Iowa, Illinois, Kansas, Michigan, Minnesota, Wisconsin and Manitoba) have agreed to develop a multi-sector cap and trade program for the Kyoto GHGs. Indiana, Ohio, and South Dakota have signed on as observers.
The GHG trading program is slated to begin in 2010 but a reduction goal has not yet been established. They also agreed to join The Climate Registry to enable tracking,

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[1] More information about RGGI is available at http://www.rggi.org/