

## WRI FACT SHEET

# Regional Cap-and-Trade Programs

## WHAT IS HAPPENING ON THE REGIONAL LEVEL AND WHY IS THIS SIGNIFICANT?

Twenty-three U.S. states and four Canadian provinces are actively participating in the design and implementation of three regional cap-and-trade programs to reduce greenhouse gas emissions. Participating U.S. states account for one-half of the U.S. population, and Gross Domestic Product (GDP), and one-third of all U.S. greenhouse gas emissions. The Canadian provinces account for more than three-quarters of the Canadian population and GDP, and nearly one-half of Canadian GHG emissions.<sup>1,2,3,4</sup> These efforts are formally observed by another 14 states and provinces across the United States, Canada, and Mexico.

Regional cap-and-trade programs account for the most significant domestic greenhouse gas regulatory efforts to date. In developing these programs, the regions have demonstrated innovation about policy design and program implementation that will inform national climate policy development in the United States and Canada.

## WHAT ARE THE REGIONAL PROGRAMS, AND WHICH STATES ARE PARTICIPATING?

The **Northeastern Regional Greenhouse Gas Initiative**, or **RGGI**,<sup>5</sup> was the first cap-and-trade program for greenhouse gases in the United States. It covers 10 Northeastern and Mid-Atlantic states (Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, and Vermont). The program limits – or “caps” – carbon dioxide (CO<sub>2</sub>) emissions from large fossil-fuel-fired electric generating units, with the goal of stabilizing emissions

from 2009 through 2014 to a level roughly equivalent to recent historical emissions. The program then reduces the cap by 2.5 percent per year over the next four years so that in 2018 there is a 10 percent reduction from the baseline. RGGI took effect and began regulating CO<sub>2</sub> emissions on January 1, 2009. The first auction for allowances was held on September 25, 2008, and subsequent auctions have been and will be held quarterly.

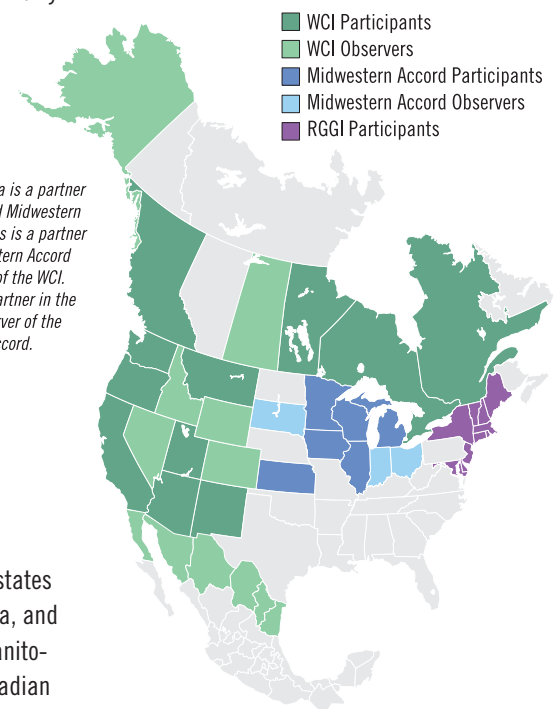
The **Western Climate Initiative**, or **WCI**,<sup>6</sup> covers seven U.S. states (Arizona, California, Montana, New Mexico, Oregon, Utah, and Washington) and four Canadian provinces (British Columbia, Manitoba, Ontario, and Quebec). Another six U.S. states, one Canadian province, and six Mexican states are formally observing this process. The WCI released a design document laying out its basic program parameters in September 2008. That agreement calls for a program that will cover nearly 90 percent of the region’s greenhouse gas emissions when it is fully implemented (commonly referred to as an economy-wide program). The program will reduce emissions 15 percent below 2005 levels by 2020.

Member jurisdictions are moving forward with program implementation.

The cap-and-trade program will begin regulating emissions in January 2012. To ensure the program is founded on sound emissions data, mandatory emissions monitoring will commence in January 2010.

The **Midwestern Greenhouse Gas Reduction Accord**, or **Midwestern Accord**,<sup>7</sup> covers six U.S. states (Illinois, Iowa, Kansas, Michigan, Minnesota, and Wisconsin) and one Canadian province (Manitoba). Another three U.S. states and one Canadian province are formally observing this process. In

early 2008, participating jurisdictions appointed an Advisory Group comprised of representatives from environmental groups, industry, and the participating jurisdictions to develop recommendations on a regional cap-and-trade program. In May 2009, the Advisory Group released their draft final design recommendations. These recommendations call for an economy-wide program that would reduce emissions 20 percent below 2005 levels by 2020, and 80 percent below 2005 levels by 2050, though the 2020 target may decrease to 18 percent if allowance prices escalate too high. The Advisory Group will meet to finalize its recommendations after regional economic modeling is completed in early fall 2009. A model rule, which is the sample rule upon which participating jurisdictions base their own rules, is being developed, and the Midwestern Accord cap-and-trade program is scheduled to launch in January 2012.



	RGGI	WCI	Midwestern Accord
<b>Participants</b>	<b>USA:</b> CT, DE, MA, MD, ME, NH, NJ, NY, RI, VT	<b>USA:</b> AZ, CA, NM, MT, OR, UT, WA <b>CAN:</b> BC, ON, MB, QC	<b>USA:</b> IL, IO, KS, MI, MN, WI <b>CAN:</b> MB
<b>Program Status</b>	Emissions covered beginning Jan 2009. First auction held Sept 2008.	Will commence Jan 2012. Released design document in Sept 2008 containing agreed-upon program parameters. Model Rule under development.	Will commence Jan 2012. Draft final recommendations released May 2009. Will finalize recommendations after regional economic modeling completed summer 2009. Model Rule under development.
<b>Program Scope</b>	<b>Gases:</b> CO <sub>2</sub> emissions. <b>Sources:</b> Large electric generators. <b>Coverage:</b> 28% of CO <sub>2</sub> emissions.	<b>Gases:</b> All 6 Kyoto gases. <b>Sources:</b> In 2012 — electricity generators and large industrial sources. In 2015 — expanded to emissions from residential, commercial, and other industrial combustion, and transportation fuels. <b>Coverage:</b> In 2012 — 50% of emissions. In 2015 — nearly 90% of emissions.	<b>Gases:</b> All 6 Kyoto gases. <b>Sources:</b> Economy-wide including: electric, industrial, residential, commercial, transportation combustion, and industrial process emissions. Manitoba will phase-in coverage in manner similar to WCI. <b>Coverage:</b> Roughly 85% of GHG emissions. Disparity in coverage between Midwestern Accord & WCI is primarily due to differences in regional sectoral emissions portfolios.
<b>Reduction Targets</b>	2009–2014 cap set at level roughly equal to historical emissions. 2015–2018 cap declines 2.5% per year, resulting in 10% reduction from 2009 budget.	Regional average reduction of 15% below 2005 levels by 2020 (jurisdiction targets vary).	20% below 2005 levels by 2020 (may decrease to 18% if allowances released from cost containment pool). 80% below 2005 levels by 2050.
<b>Offset Usage Allowed</b>	50% emissions reduction from BAU projections, which is equivalent to 3.3% of compliance obligation. More offsets allowed if allowance prices rise above price thresholds.	No more than 49% of emissions reductions relative to starting cap.	20% of compliance obligation. May expand if allowance prices rise above price thresholds. Note, price thresholds not yet determined.
<b>Auction Goals</b>	25% of allowances are allocated for consumer benefit or strategic energy purpose. Auctions were envisioned to be primary tool for this. As states began to implement RGGI, use of auction increased. Now, over 85% of the region's allowances will be auctioned in the early stages of the program.	10% auction minimum at start. Increase to 25% minimum by 2020. Aspirational goal of 100%.	May vary jurisdiction to jurisdiction. The Advisory Group recommended the following: 100% of transportation and merchant generator allowances, unless entity demonstrates inability to pass through costs. Initially 5% of industrial sector and 10% of electric sector allowances auctioned, remaining industrial and electric sector allowances sold to covered entities for a “modest fee.” This equates to an auction of about 1/3 of all allowances and sale of the remaining 2/3. The Advisory Committee recommended a shift to a full auction over time.
<b>Use of Allowance Value</b>	Varies jurisdiction to jurisdiction. To date, majority of auction revenue directed towards energy efficiency programs.	Not established in September design document.	May vary jurisdiction to jurisdiction. The Advisory Group recommended that allowance value go towards: (1) accelerating transformational investment in technologies and infrastructure (2) cost mitigation for end-users, particularly low-income consumers and energy intensive industry (3) adaptation
<b>Cost Containment</b>	3-year compliance period with unlimited banking, early action credit, offsets, and price triggers. First price trigger expands use of offsets to 5% of facility compliance obligation. Second price trigger expands use of offsets expand to 10% of facility compliance obligation, increases the compliance period, and allows facilities to use international offsets.	3-year compliance period with unlimited banking, early action credit, and offsets.	3-year compliance period, unlimited banking, limited borrowing, early action credit, offsets, and price thresholds. Market Oversight and Cost Containment (MOCC) Committee will establish upper and lower price thresholds. If prices are too high, allowance borrowing and offset limits will be expanded. If prices are too low, allowance borrowing will be curtailed and offset limits tightened. If allowance prices substantially exceed the price threshold, allowances will be released from a reserve pool. If allowance prices are extremely low, the MOCC will withdraw allowances from the market and put them in the reserve pool.

## Notes

- Climate Analysis Indicators Tool. WRI. <http://www.cait.wri.org>
- U.S. Census Bureau. <http://www.census.gov/>
- Statistics Canada. <http://www.statcan.gc.ca/>
- Environment Canada. Canada's Greenhouse Gas Inventory. [http://www.ec.gc.ca/pdb/ghg/inventory\\_e.cfm](http://www.ec.gc.ca/pdb/ghg/inventory_e.cfm)
- <http://rggi.org/>
- <http://westernclimateinitiative.org/>
- <http://midwesternaccord.org/>
- This chart was compiled by WRI with contributions from the Pew Center on Climate Change

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