



Greenhouse Gas Regulation in the US: *Federal Legislation, Regional Programs and International Harmonization*

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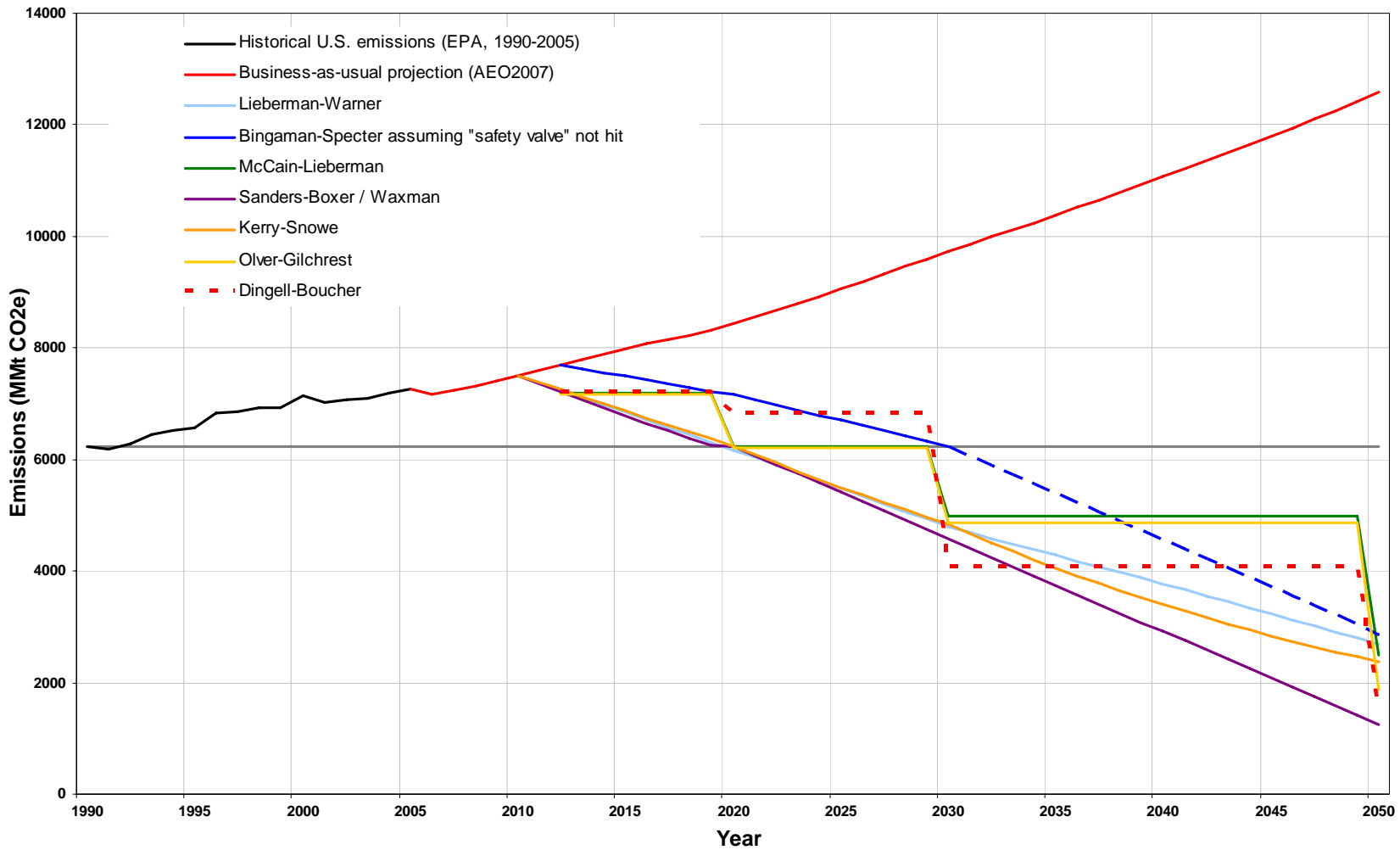
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Presentation Overview

- **Proposed Federal Legislation**
 - Waxman/Boxer, Dingell-Boucher
- **Regional and State Programs**
 - RGGI, WCI, MRGHGRA
- **Federal Preemption of State and Regional Programs**
- **International Harmonization: Toward a Common Currency**

Proposed Federal Legislation



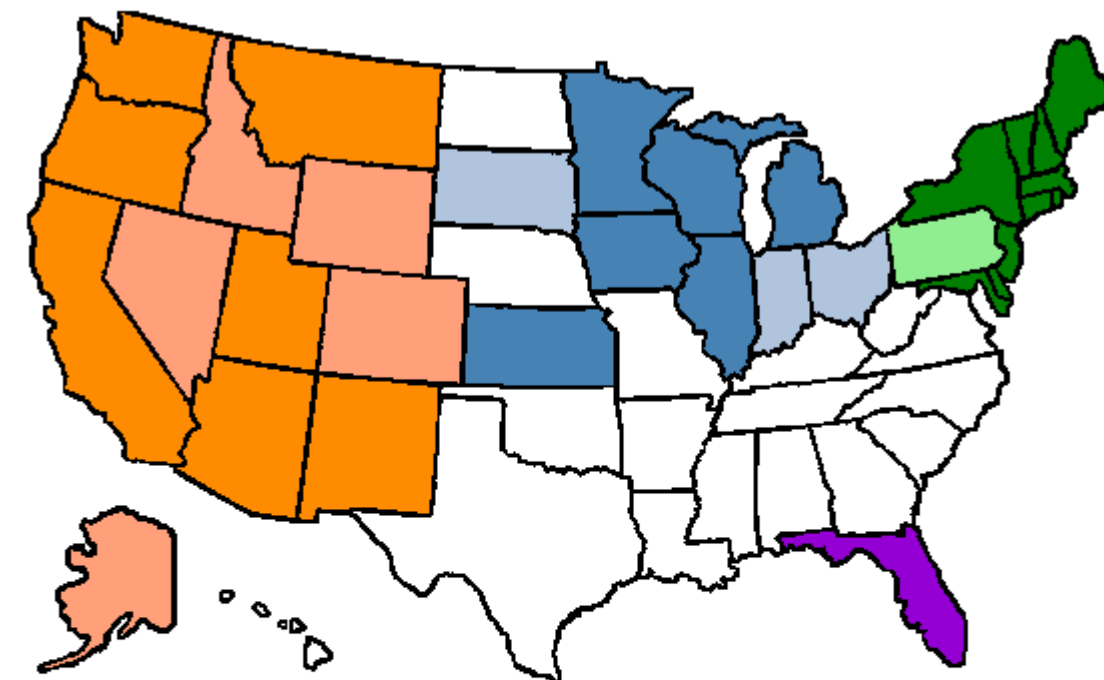
Dingell-Boucher Discussion Draft (Oct. 7, 2008)

- **Emissions Limits**
 - 6% below 2005 levels by 2020, 44% below 2005 levels by 2030, and 80% below 2005 levels by 2050
 - Covers ~88% of GHG emissions
- **Covered Sources**
 - Power plants, petroleum producers and importers, large industrial facilities - emitting > than 25K tons CO₂e
 - Smaller entities covered by industry-specific standards
- **Provides four options for allocating allowances**
 - Distributed on percentage basis to covered sectors and specific complementary programs for auction

Waxman H.R. 1590 (March 20, 2007)

- **Emissions Limits**
 - In 2010, not to exceed 2009 levels
 - From 2011-2020, a 2% reduction each year
 - 1990 levels by 2020
 - From 2021-2050, a 5% reduction each year
 - 80% below 1990 levels by 2050
- **Allocation of Allowances**
 - To be determined by the President
 - Unspecified amount of allowances to be auctioned
- **Includes GHG standards for motor vehicles**

Regional Programs



- Regional Greenhouse Gas Initiative RGGI
- RGGI Observer
- Midwestern Regional GHG Reduction Accord
- MRHGRA Observer
- Western Climate Initiative
- Western Climate Initiative Observer
- Individual State Cap-and-Trade Program

Source: Pew Center on
Global Climate Change

Regional Greenhouse Gas Initiative ("RGGI")

- **Cooperative effort by 10 Northeast and Mid-Atlantic states to reduce GHG emission through cap-and-trade program**
- **Mandates a 10% reduction in GHG emissions from the power sector by 2018**
- **First auction occurred Sept. 25, 2008**
 - 12.5 million allowances sold at \$3.07
 - \$38,575,783 in proceeds invested in energy efficiency and renewable energy technologies
- **Next auction set for Dec. 17, 2008**
 - 31.5 million allowances will be offered

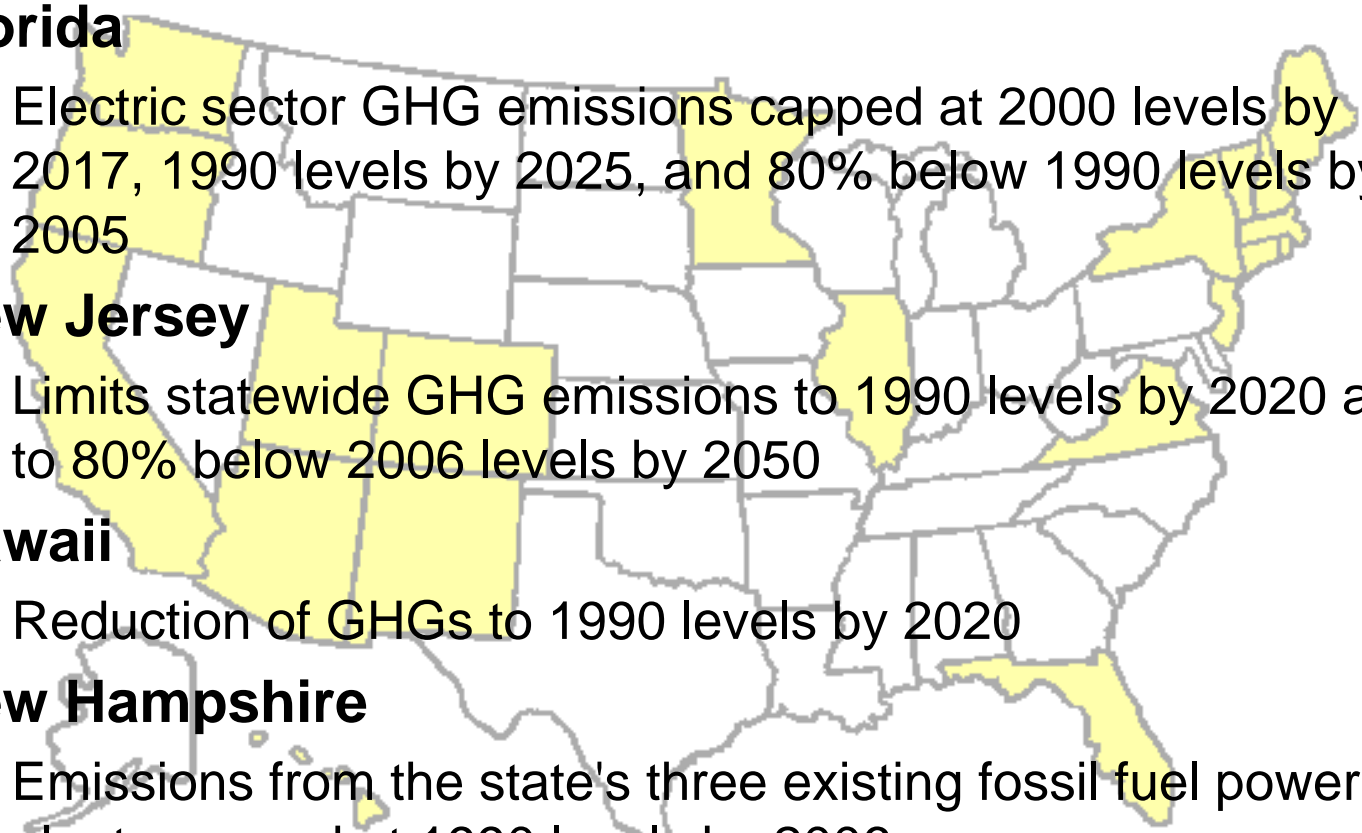
Western Climate Initiative ("WCI")

- **7 Western States and 4 Canadian Provinces**
 - Goal to cover 90% of emission in covered regions
 - Reduce GHG emissions 15% below 2005 levels by 2020
 - Cover nearly 1.5 billion tons of GHG emissions by 2020
- **Sector Coverage**
 - Electricity generation and large industrials in 2012
 - Transportation, residential and other processes in 2015
- **Covered Entities**
 - Facilities emitting more than 25,000 tCO_{2e}
 - Electricity generators that export power into covered states

California A.B. 32

- **Requires reduction of GHGs to 1990 levels (a total reduction of 169 MtCO₂) by 2020**
 - 79% of reductions via regulation
 - 21% of reduction via cap-and-trade program
- **Proposed Scoping Plan**
 - Cap-and-trade program to cover 85% of emissions by 2020
 - Regulation of electricity generators and large industrial facilities beginning in 2012
 - Regulation upstream of small industrial facilities and transportation fuel beginning in 2015
 - Integration with WCI
 - Rulemaking to determine issues related to allocation vs. auction and offsets

Examples of Other State GHG Initiatives

- **Florida**
 - Electric sector GHG emissions capped at 2000 levels by 2017, 1990 levels by 2025, and 80% below 1990 levels by 2005
 - **New Jersey**
 - Limits statewide GHG emissions to 1990 levels by 2020 and to 80% below 2006 levels by 2050
 - **Hawaii**
 - Reduction of GHGs to 1990 levels by 2020
 - **New Hampshire**
 - Emissions from the state's three existing fossil fuel power plants capped at 1990 levels by 2006
- 

Federal Preemption Issues

- **Waxman - No Preemption**
 - "Nothing in this title shall be interpreted to limit State actions to address climate change." § 707.
- **Dingell-Boucher - Preemption**
 - "[N]o State, local, or regional authority may adopt or enforce a program that caps the amount of greenhouse gases that may be emitted or sold, and that uses tradable emission allowances for the purpose of meeting that cap." § 733(b).
- **RGGI**
 - If "a federal program is adopted, and it is determined to be comparable to this Program, the Signatory States will transition into the federal program." M.O.U. § 6(B).



International Harmonization: Toward a Common Currency

Common Elements of Carbon Markets

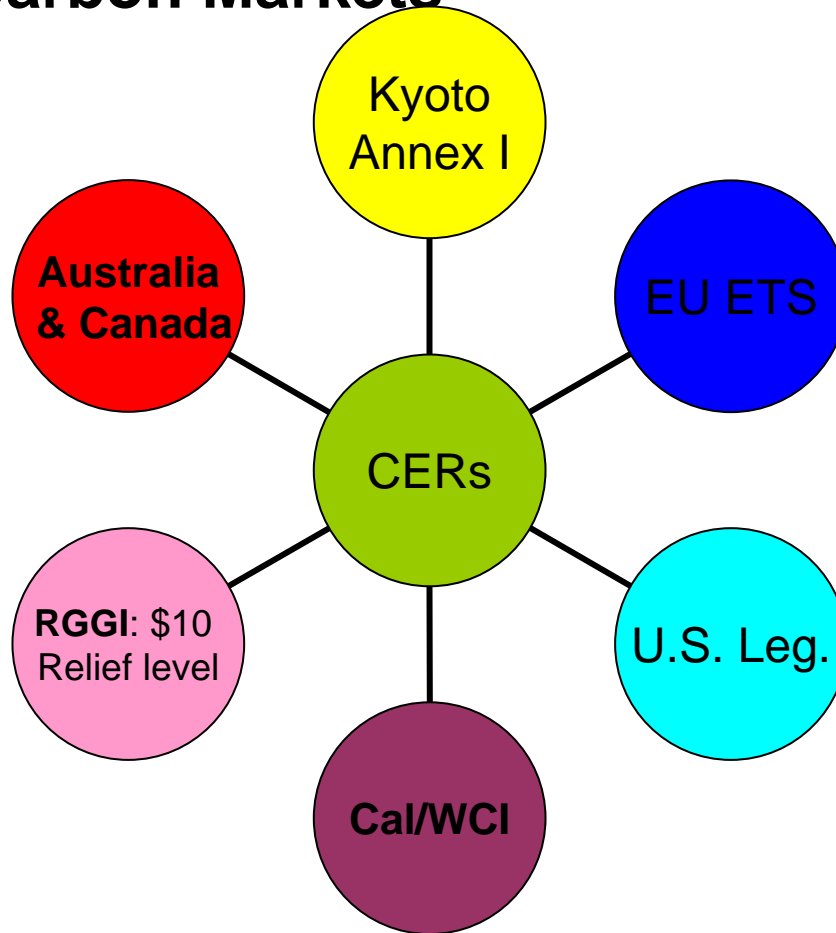
- **Emission Caps**
 - Government-Imposed Limits on GHG emissions
 - Enforceable GHG emission reduction requirements
- **Allowances/Credits**
 - Permits for emissions of a specified amount of GHG within a given period
- **Offsets from Unregulated Sectors**
 - GHG emission reductions for which credits are awarded for projects outside the regulatory emissions cap
- **Banking and Trading**
 - Banking - saving current allowances or credits for future use

Currencies of Environmental Markets

Market	Currency
Kyoto	<i>AAUs, CERs and ERUs</i>
EU ETS	<i>EUAs + CERs and ERUs</i>
RGGI	<i>Allowances + Offsets</i>
New South Wales	<i>NGACs & RECs + Offsets</i>
Western Climate Init.	<i>GHG Allowances + Offsets</i>
U.S. Climate Program	<i>???? + Offsets</i>

The Common Currency of GHG Markets

- **Clean Development Mechanism/Offsets Links the Leading Carbon Markets**



Financial and Offset Industry Acting

- **Swaps involving EUAs and CERs**
- **Forward CER Contracts**
- **Trust Agreements involving CERs**
- **Commodity pooling instruments for futures**
- **Robust commodity and futures exchanges for EUAs, CERs, ERUs, RGGI Allowances, etc.**
 - The Green Exchange
 - European Climate Exchange
 - BlueNext
 - Nordpool

Post-Kyoto World

- **Kyoto expires in 2012**
- **UNFCCC negotiations (Bali, 2007, Poznan, 2008 and Copenhagen, 2009)**
 - US climate legislation
 - Caps on China's and India's emissions?
 - More aggressive commitments from developed nations
 - European Commitment to 20% reduction from 1990
 - Expanded investments in technology energy?
 - Greater stringency for CDM and JI projects
- **What Impact Will Financial Crisis Have on Climate Regulation?**



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