Governor’s Office Starting Point Proposal for Carbon Emissions Reduction in Washington

**Presentation Goal:** Summarize thinking of the Governor’s Office to date on policy mechanisms available to reduce carbon emissions; provide next iteration of a “Starting Point” program for consideration by the Taskforce
Review of Core Principles
(from June meeting)

I. Review Principles from last meeting (must haves)

- Cap - minimize disproportionate impact
- Accountability - spur investment and jobs
- Market Mechanisms

II. Some preferences

- Emissions certainty
- Greater range of compliance options = efficiency
- Enabling national and international action/impacts through linkage
Options for Washington
Making a price based program work in Washington

- Price that would change over time?
- Providing options for compliance?
- Link to broader markets?
- Leverage long term investment?
- Fee or a tax?
Making an emissions based approach work in Washington

- Reach WA’s emissions reduction targets with high confidence and consideration of WA’s emissions and energy sources

- Minimize the implementation costs and competitiveness impacts to our businesses and industries (flexibility)

- Accountable program that prioritizes attainment of statutory limits

- Greater number, more flexible pathways to compliance
Making an emissions based approach work in Washington

- Maximize the economic development benefits and opportunities for job growth in WA
- Enabling action at the national and international level

- Maximizes the incentive for long term, structural investments in green energy
- Opportunities to link administratively to other jurisdictions effectively scaling up impacts, gaining efficiencies from economies of scale and deepening institutional cooperation around reducing carbon emissions globally
Why Linkage?

- Market Size & Liquidity
- Level playing field for participants that work across borders
- Administrative costs and economies of scale
- Help spur national and international action
Design Elements

**Identical**
- Compliance period
- Cost Containment
- Market rules (banking)
- Administrative systems

**Harmonized**
- Program Start
- Emissions Reduction Coverage
- Point of Regulation
- Setting Cap
- Offsets (use, eligibility)
- Compliance

**Flexible**
- Allowance Distribution
- Revenues

Washington State Carbon Emissions Reduction Taskforce  July 29, 2014
Starting Point
Design Elements Focus

- Coverage
- Setting the Limits
- Allowances
- Cost Containment
- Revenue
Coverage

- Electricity (generation, importers)
- Industrial sources
- Suppliers and distributors of natural gas, transportation fuels and other fuels, liquid petroleum gas providers
- Stationary sources exceeding 25,000 MTCO2 annually

Number of Emitters over 25,000 MTCO2
Setting the Emissions Limits

• 2016 start date; assume 2020 and 2035 limits
• Market wide limits, not allocated to sectors
• Initial baseline set using 5 year average
• Limits decline to attain 2020 statutory requirement
• Moving forward, limits announced 3 years in advance of compliance period start date
Allowance Distribution

- 15% auction minimum in Year 1 compliance period; to increase annually

- Establish auction purchase limits per entity and other measures from 2008 ICF report to minimize market manipulation

- Banking is permitted, restricted to two compliance periods
Cost Containment

- **Cost Containment Reserves**
  - 5% of allowances set aside for price containment reserve

- **Offsets**
  - Limit to no more than 10% compliance requirement per entity
  - Verifiable and Additional
Revenue

- Auction proceeds treated as fees
- Advance goals of the program
- Offset impacts to business
- Underwrite incentives for green technology
- Offset impacts to disadvantaged communities, groups