

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

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

## 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 →
- Accountable program that prioritizes attainment of statutory limits
- Minimize the implementation costs and competitiveness impacts to our businesses and industries (flexibility) →
- 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 →
- Maximizes the incentive for long term, structural investments in green energy
- Enabling action at the national and international level →
- 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





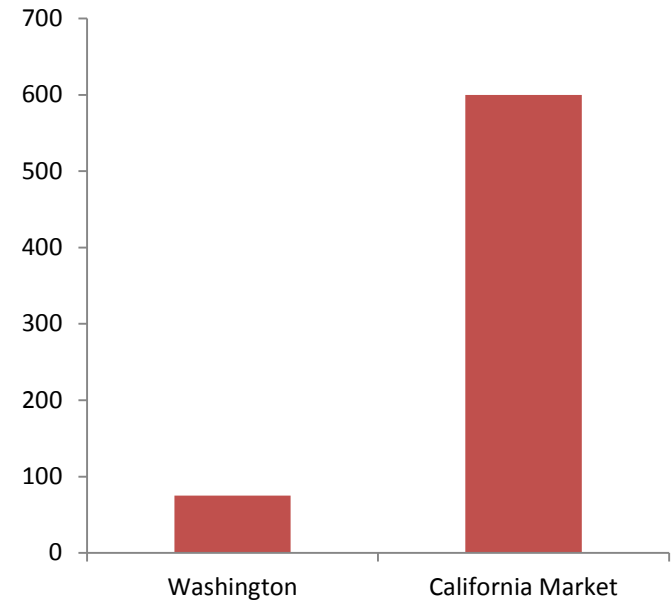
# Starting Point Design Elements Focus

- 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 MTCO<sub>2</sub> annually

Number of Emitters over 25,000 MTCO<sub>2</sub>





# 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