THE BOTTOM LINE ON...

Answers to frequently asked questions about climate and energy policy Issue 13

WORLD RESOURCES INSTITUTE

REGIONAL CAP-AND-TRADE PROGRAMS

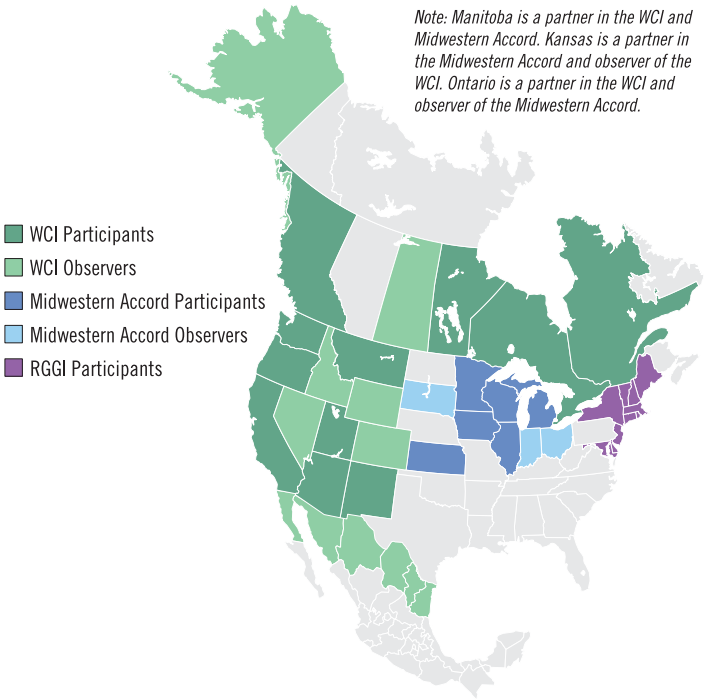
Three regional greenhouse gas cap-and-trade programs are either in the planning stages or operational in North America. This brief discusses each of the programs.

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.[1,2,3,4] 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 in policy design and program implementation that will inform national climate policy development in the United States and Canada.

For basic information on cap-and-trade programs, please see *The Bottom Line on Cap-and-Trade.*



Note: Manitoba is a partner in the WCI and Midwestern Accord. Kansas is a partner in the Midwestern Accord and observer of the WCI. Ontario is a partner in the WCI and observer of the Midwestern Accord.

WHAT ARE THE REGIONAL PROGRAMS? WHICH STATES ARE PARTICIPATING?

The **Northeastern Regional Greenhouse Gas Initiative**, or **RGGI**,[5] 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_2) 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_2 emissions on January 1, 2009. The first auction for allowances was held on September 25, 2008. Subsequent auctions have been and will be held quarterly.

The **Western Climate Initiative**, or **WCI**,[6] 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**,[7] 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 recom-

mendations. 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 increase too much. 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 proposed set of GHG trading rules upon which participating jurisdictions base their own rules, is being developed. The Midwestern Accord cap-and-trade program is scheduled to launch in January 2012.

What will happen to the regional programs once U.S. federal regulations are passed?

While historically states have been drivers of policy innovation, it remains unclear what role they may have in a federal climate program. Under federal legislation, the regional programs may be preempted or encouraged to fold into the federal program. If this happens, it is likely that a federal program will provide some mechanism for regional allowances to transition into the federal program. For more information on the roles of states in a federal climate program, see *The Bottom Line on State and Federal Policy Roles*.

Notes

1. Climate Analysis Indicators Tool. WRI. http://www.cait.wri.org
2. U.S. Census Bureau. http://www.census.gov/
3. Statistics Canada. http://www.statcan.gc.ca/
4. Environment Canada. Canada's Greenhouse Gas Inventory. http://www.ec.gc.ca/pdb/ghg/inventory_e.cfm
5. http://rggi.org/
6. http://westernclimateinitiative.org/
7. http://midwesternaccord.org/

Additional References

- The Bottom Line on Cap and Trade
  http://www.wri.org/publication/bottom-line-cap-and-trade
- The Bottom Line on Climate Policy Terminology
  http://www.wri.org/publication/bottom-line-climate-policy-terminology
- The Bottom Line on State and Federal Policy Roles
  http://www.wri.org/publication/bottom-line-state-federal-policy-roles
- Federalism in the Greenhouse: Defining a Role for States in a Federal Cap-and-Trade Program
  http://www.wri.org/publication/federalism-in-the-greenhouse

	RGGI	WCI	Midwestern Accord
Participants	**USA:** CT, DE, MA, MD, ME, NH, NJ, NY, RI, VT	**USA:** AZ, CA, NM, MT, OR, UT, WA **CAN:** BC, ON, MB, QC	**USA:** IL, IO, KS, MI, MN, WI **CAN:** MB
Program Status	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.
Program Scope	**Gases:** CO_2 emissions. **Sources:** Large electric generators. **Coverage:** 28% of CO_2 emissions.	**Gases:** All 6 Kyoto gases. **Sources:** In 2012 — electricity generators and large industrial sources. In 2015 — expanded to emissions from residential, commercial, and other industrial combustion, and transportation fuels. **Coverage:** In 2012 — 50% of emissions. In 2015 — nearly 90% of emissions.	**Gases:** All 6 Kyoto gases. **Sources:** Economy-wide including: electric, industrial, residential, commercial, transportation combustion, and industrial process emissions. Manitoba will phase-in coverage in manner similar to WCI. **Coverage:** nearly 90% of GHG emissions
Reduction Targets	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.

Note: This chart was compiled by WRI with contributions from the Pew Center on Climate Change

This series is a product of WRI's climate and business engagement projects including the Green Power Market Development Group and the U.S. Climate Business Group. Through these projects, WRI works with leading companies to pioneer low-carbon business strategies and advance markets for renewable energy.