

Midwestern Greenhouse Gas Reduction Accord

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June 2009

PROCESS OVERVIEW

- November 2007: Governors' and Premier's Summit in Milwaukee, Wisconsin
- Accord Advisory Group created by Governors
 - Includes Executive Committee comprised of Governors'/Premiers' Reps
 - Stakeholders
- Draft Recommendations November 2008
- Draft Final Recommendations May 2009

FEATURES OF RECOMMENDATIONS

- Multi-sector GHG reduction commitment, with strong and achievable targets
- Innovative allowance distribution proposal combining fee-based allocations with auctioning; with clear transition to 100 percent auction
- Robust approach to offsets
- New framework for cost containment measures; market-based incentives while safeguarding interests of industry and consumers

Program Feature	Midwestern Accord Approach
Reductions and Timetables	<ul style="list-style-type: none"> • Program starts in 2012; • 18 to 20% below 2005 levels by 2020; • 80% below 2005 levels by 2050.
Scope	<ul style="list-style-type: none"> • Electricity combustion, including imports; • Industrial combustion and process emissions; • Transportation fuels (phased in 2nd period for MB); • Residential, commercial and industrial (RCI) fuels not otherwise covered at emissions source (phased in 2nd period for MB) • Biomass emissions are exempt
Point of Regulation	<ul style="list-style-type: none"> • Electricity and industrial sources at point of emissions; • Transportation fuels at the point where the fuels enter the participating jurisdiction; • RCI fuels where the fuels enter the participating jurisdiction.
Threshold for coverage	<ul style="list-style-type: none"> • 25,000 metric tons of annual emissions • 3-year rolling average; once-in, always in. • Electric generators with nameplate capacity under 25 megawatts exempt

Program Feature	Midwestern Accord Approach
Distributing Allowances	<ul style="list-style-type: none"> • Up to States and Province, but Advisory Group recommends: <ul style="list-style-type: none"> • Approximately 33% auction; 67% sold for a fee: • All transportation and merchant power generator allowances will be auctioned; • 5% of other sectors' allowances will be auctioned with proceeds to a Technology Fund, with rest <u>sold</u> for modest fee. • Transition to 100% beginning in 4th compliance period.
Offsets	<ul style="list-style-type: none"> • Offsets may be used to cover up to 20% of each entity's compliance obligation. • Offsets from region, plus states & provinces with MOU
Reporting	<ul style="list-style-type: none"> • Commence in 2011 • Threshold: 20,000 metric tons annual emissions
Share of Reductions from Capped Sectors	<ul style="list-style-type: none"> • Capped sectors will provide their proportional share of reductions

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Cost Containment	<ul style="list-style-type: none">• Compliance period 3 years• Banking allowed• Borrowing allowed two years into next compliance period• Establish regional Market Advisory and Cost Containment Committee (MACCC):<ul style="list-style-type: none">• 2% allowance reserve pool, to be released as follows:<ul style="list-style-type: none">• MACCC to establish a price “collar” with a low price and high price;• If allowance price substantially exceeds the high price, then allowances will be released from the 2% allowance reserve pool.• MACCC will also monitor the market for signs of gaming or manipulation

STATE ALLOWANCES DISTRIBUTION

- Program will entail significant economic transition
- Advisory Group recognizes the need to mitigate the costs and maximize the benefits associated with the transition
 - Accelerating transformational investment
 - Mitigating transition and adverse impacts of the program
 - Addressing harmful impacts due climate change

MITIGATING TRANSITIONAL ADVERSE IMPACTS TO CONSUMERS

- Allowance value should be used to mitigate cap-and-trade program cost impacts to end users (low-income consumers) including energy price impacts
- Allowance value should be used to minimize net cost increases to consumers by promoting investment in conservation and efficiency programs
 - Any allowance value any jurisdiction may put toward efficiency should be additional to, and not a substitution for, existing efforts

INDUSTRY

- Allowance value should be used to ease worker and community transition

WORKERS

- Allowance value should be used to support robust regional worker training and educational programs

NEXT STEPS

- Influence the federal cap and trade discussion, while moving forward with development of a regional program as backstop
- Complete REMI modeling of jobs and macroeconomic impacts prior to issuing final design recommendations, with modeling results later in the summer.
- Model Rule development has commenced (on schedule for completion in September 2009)

ADDITIONAL NEXT STEPS

- Governors looking at a comprehensive regional energy and jobs solution – *Creating Jobs in a New Energy Economy*
 - Workforce development
 - Investment
 - Energy efficiency, biofuels, renewable electricity
 - Advanced coal with carbon capture and storage

KEYS TO ACCORD'S SUCCESS

- Leadership from governors
- Multi-sector approach
- Advisory/stakeholder input
- No tax-payer dollars
- Participant and observer status
- Potential for new jobs
- Cap-and-trade plus parallel development of complementary policies

ENERGY SECURITY AND CLIMATE STEWARDSHIP PLATFORM

- Accord is a part of broader energy initiative
- Comprehensive in scope, integrated in approach and ambitious in its measurable goals and deliverables
- Combined – Accord and Platform uniquely positions Midwest as leader in energy and climate issues
- Focuses on renewable energy, energy efficiency, biobased economy, and advanced coal with carbon capture and storage

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*Governors' Jobs & Energy Summit
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