

Regional Greenhouse Gas Initiative

Subgroup on Model Rule Development

Model Rule Outline & Identification of Key Policy Decisions

Model Rule Outline

Note: items in italics represent policy issues the Workgroup feels will need substantial discussion and agreement as model rule language is developed

I. *Purpose and Scope* - Criteria defining the purpose and scope of the cap and trade program

Policy Issues:

- *Should the cap be applicable to CO₂ only or should it also include other generally recognized greenhouse gases (GHG)?*
 - *CO₂ represents a very large portion of total GHG emissions from electric sector.*
 - *To include GHGs other than CO₂ would add substantial complexity to the regulation. Additional gases will raise the issue of equivalence (Global Warming Potentials (GWP) since not all GHGs are created equal). Additional gases will also necessitate monitoring requirements for each GHG (CO₂ monitoring is relatively straight forward and can be accomplished with equipment already in place).*
- *Should the cap be applicable to Electric Generating Units (EGU) only or should the purpose indicate EGU initially with other sectors to follow?*

II. *Definitions*- List of key terms defined in the rule

III. *Statement of Individual State CO₂/GHG Budget* – Section of the rule where the annual statewide budget for CO₂/GHG is stated (in tons of CO₂/GHG equivalents)

Policy Issues:

- *Should the cap be a single target (in tons) or should it be phased in over time? Should other provisions be included that allow the cap to be adjusted up or down for cause (additional science, additional sectors included, other states or provinces included)?*

IV. *Applicability* - Criteria defining the facilities that will be covered under the cap (affected facilities)

Policy Issues:

- *Type of facilities covered under the cap EGU only?*
- *Size threshold for the facilities covered under the cap?*
- *Should the Cap and Trade system include “Opt In” provisions? Under what conditions?*

V. *General Provisions* - Would outline requirements for:

- The facilities covered under the cap to possess allowances equal to emissions by allowance trading deadlines
- New Units to notify agency of commencement of operation (if applicable)
- Existing unit shutdown or deactivated reserve notification
- Limitations on, or Interactions between, GHG allowances and GHG offsets programs, RPS regulations or other requirements (if applicable)

VI. *Allowance Allocation* - Would define the allocation procedures for facilities covered under the cap and for any set aside accounts if applicable (such as new unit set asides or public benefit set asides)

Policy Issues:

- *What allowance allocation system should be utilized? Auction? Output Based? Heat Input based? Industry Average Standard based?*
- *Does the allocation system need to be consistent region-wide or should the decisions be made on a state-by-state basis? Do all states have the legal authority to hold auctions?*
- *What types of sources should receive allocations?*
 - *Fossil only? Nuclear? Renewables?*
- *How will new sources be handled under the cap and trade system? Should there be a set-aside accounts for new sources?*
- *How will unit retirements be handled? (This may not be an issue if output based allocations are used).*
- *How will repowering of units be handled?*

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- *Should we create incentives for:*
 - *early reductions?*
 - *energy efficiency*
 - *CHP*
 - *Other?**If so, what mechanism should be used?*

- *Will CO₂/GHG “Offsets” or “Project Based” Reductions/Sequestered emissions be allowed under the cap? If so, using what mechanisms will be allowed and from what types of projects: Emission Reductions? Sequestration? Avoided Emissions?*
 - *Note: If “project based” reductions, such as sequestered emissions are allowed, this would necessitate additional sections or the Model Rule regarding Quantification Protocols and Verification Procedures.*

- *How can allocations be accomplished without creating barriers to entry for new sources?*

VII. *Plan Approval and Operating Permit Requirements* - Will define requirements for Plan Approval (necessary permit changes) and Operating Permit revisions (state only requirements) if applicable (e.g., Enforceability)

VIII. *GHG Allowance Tracking System* - Will define procedures for:

- Establishing and maintaining GHG allowance accounts
- Actions to be tracked under the system

IX. *Allowance Banking* - Will define procedures for allowance banking

Policy issues:

- *Should the cap and trade system allow for the banking of allowances year to year? If so should there be any temporal (shelf life) or quantity (limit on total banked allowances) limitations on allowance banking?*

- *Should the use of future year allocations (Allowance loans) be permitted?*

X. *Allowance Use and Transfer* - Will define procedures for allowance use and transfer by any owner of allowances

XI. Emissions Monitoring - Will define procedures for monitoring of CO₂ (or other GHGs if applicable)

Policy Issue:

- *Acceptable monitoring alternatives?*

Note:

- *The monitoring provisions will dramatically increase in complexity if GHGs besides CO₂ will need to be monitored.*

XII. Record Keeping - Will define record keeping requirements

XIII. Reporting - Will define reporting requirements and procedures and annual schedule

XIV. Compliance Determination - Will define requirements, procedures and annual schedule for compliance determination at each GHG Budget source at the end of each control period

XV. Compliance Certification - Will define requirements for certification of compliance at each GHG Budget source at the end of each control period

XVI. Penalties - Will define penalty provisions for facilities that fail to meet requirements

XVII. CO₂ Allowance Account Maintenance Fees - Will define Account Maintenance fees (if applicable)

XVIII. Program Audit Provisions - Will define program audit schedule and scope if applicable

Policy Issue:

- *Do we want to audit the program at some point in the future? If so on what frequency? Can the frequency be linked to audits of other pollutants? (Multi-pollutant approach on frequency of national inventory).*

Policy Decisions To Be Addressed by the Working Group at Large

- *Control CO₂ emissions only from power plants or also include emissions of other commonly recognized greenhouse gases?*
- *Determination of the appropriate cap size Region-wide – Basis for the Cap?*
 - *Baseline or base-year assumptions?*
 - *Should the cap be set as a single limit or be phased in over time? If phased, on what schedule?*
 - *Will the cap be a percent reduction from baseline/base-year?*
 - *Should there be provisions to allow for the adjustment of the cap up or down for cause? Additional Science, additional sectors included, other?*
 - *How should individual State/ Province portions of the cap be determined?*
 - *Should growth in electrical demand be addressed under the cap? If so how?*
 - *Should Technology advances be figured into the cap? If so how? Declining cap?*

Note that the Working Group at Large will need input from the Data Gathering and Analysis Subgroup and from the Modeling Subgroup to address many/all of the above issues.

- *What policy mechanisms are available to address potential “leakage”, i.e., the shifting of generation from places under the cap to places outside of the cap not subject to a carbon constraint?*
- *Interactions with other CO₂ trading systems?*
 - *Interactions with other CO₂ regulatory requirements? (e.g. MA CO₂ offset requirement for new sources under the Energy Facility Siting Board regulations).*
 - *Interactions with Renewable Energy Credits under RPS rules (Green Tags) if allowances are allocated to renewable energy? One or the other or both?*
 - *Interactions with Public Benefit Set Aside provisions of NO_x SIP call Regulations?*
 - *Interaction with Consumer Protection /Misrepresentation Electricity Marketing Requirements (if applicable)?*
- *Will CO₂/GHG “Offsets” or “Project Based” Reductions/Sequestered emissions be allowed under the cap? If so, how) and from what types of projects: Emission Reductions? Sequestration? Avoided Emissions?*