

Allocation in the OTC NO_x Budget Program

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Decentralized Allocation is the Hallmark of the NO_x Program

- Each state is apportioned a “Budget”
- Participating states can and did allocate to sources as they saw fit (i.e., differently)
- The main distinction in allocation is between
 - output-independent (grandfathering)
 - output-dependent (updating)



Allocation Systems

- Classic, upfront, output-independent
 - PA, DE & DC
- Staged output-independent
 - NH and NY
- Completely output-dependent
 - NJ and CT
- Mixed Systems
 - MA, RI, & MD



Examples of Output-dependent Allocation

- Lagged, moving average baseline
- Current updating for low emission rate units
- Required return of unused allowances
- Effect is to reduce the cost of emissions
- Magnitude of cost reduction depends on:
 - Lag structure and discount rate
 - Expected future allowance prices
 - Probability of the specified contingency



Output-dependent allocations don't seem to affect behavior

- Not a question of theoretical prediction
 - Instead issue of relative importance when all else is rarely equal
 - Low and high emission rates (and therefore costs) also seem to have little effect on output
 - Emission reduction comes through abatement instead of through re-dispatch of units favoring low emission rate units
 - Tentative research conclusion
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