



January 13, 2009

Thank you for considering these comments and recommendations submitted by the Western Climate Advocates Network (WeCAN) Cap Setting and Allowance Distribution Committee\* on behalf of WeCAN – a network of environmental and public interest organizations around the Western U.S. and Canada working to advance critical issues related to the Western Climate Initiative (WCI).

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WeCAN thanks the WCI partners for its efforts to produce the “Draft Guidance for Developing WCI Partner Jurisdiction Allowance Budgets” and allowing for public comment. The Draft Guidance demonstrates progress toward establishment of procedures that will enable successful implementation of cap and trade under the WCI. Nonetheless, we have some significant concerns that we hope will be addressed.

A practical challenge for cap-and-trade programs has been getting the initial level of the cap correct. Usually, the problem has been a cap level that is not sufficiently ambitious, that is not set low enough. As such, and given the WCI Partner decision to endeavor to set the cap at exactly business-as-usual emissions in 2012, itself a modest goal for the first year of the program (WeCAN has previously argued against this and in favor of achieving reductions in cap and trade from the first year of the program), we focus on bolstering procedures to protect against the oversupply of allowances.

This comment letter identifies four principal concerns and associated recommended fixes (bolded):

#1 – Lack of transparent process for agreeing on methods to forecast emission levels absent the implementation of cap and trade, scheduled for completion in the first quarter of 2010.

- **As we did in April 2009 (see end of document), we urge you to produce a white paper to explain the literature that you see relevant to the forecasting of emissions, and to engage stakeholders in finalizing the approach on this crucial issue.**

#2 – No procedure to adjust preliminary budgets in response to unexpected events in the finalization of allowance budgets (i.e., cap level) that will take place in autumn 2011.

- **We recommend the addition of a procedure to adjust the cap level downward in response to unexpected events based on actually mandatory reporting data, which should be available by 2011.**



#3 – Lack of recognition of interactions between the cap levels necessary in sectors capped under a cap-and-trade program and expected emissions from sources not regulated under cap and trade.

- **Recognize that the required cap levels under cap and trade interacts crucially with what is not covered under cap and trade. This reality is almost entirely ignored by Draft Guidance (Figure 2 implicitly recognizes this). Emissions not capped will have to be forecast too.**

#4 – Creation of incentive to inflate claims about new emission sources.

- **There should be a true up process to check that new sources Partner jurisdictions claim will open up after budget finalization occurs have actually been realized on the ground.**

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#1 – Lack of transparent process for agreeing on methods to forecast emission levels absent the implementation of cap and trade, scheduled for completion in the first quarter of 2010.

WeCAN is concerned that the Draft Guidance indicates that preliminary allowance budgets are to be calculated in the next three months (in the first quarter of 2010), yet there has been no stakeholder process on the question of the methods that will be used to forecast future business-as-usual emissions. Who is the contractor that is doing this? Are you considering the experiences of other cap-and-trade programs in formulating your approach? Will there be a process to engage stakeholders and allow for public oversight and input as these important issues are decided?

In our previous comments provided to your committee on April 15, 2009, WeCAN identified the method for forecasting future emissions in the absence of a cap-and-trade program as a crucial issue and we urged you to make your first task a white paper exploring options for achieving this, building on previous experiences in programs such as the Regional Greenhouse Gas Initiative. We reprint this recommendation in full at the end of this letter.

Again, we urge you to produce a white paper to explain the literature that you see relevant to this question, and to engage stakeholders in finalizing the approach on this crucial issue.

#2 – No procedure to adjust preliminary budgets in response to unexpected events.



WeCAN recommends the inclusion of a procedure to adjust the cap level downward in response to unexpected events based on actually mandatory reporting data, which should be available by 2011.

The extent to which the methods and associated forecasts of 2012 and 2015 emissions, the basis of preliminary budgets, are important have only become more clear with this current Draft Guidance. The intention is to allow only very limited adjustments to these forecasts: “Although established budgets may be revised when finalized prior to the start of the compliance period, the limited and specific conditions under which such revisions would occur should preserve the value of establishing budgets as an early and reliable market signal,” (pp. 8-9). We recommend the inclusion of a procedure to adjust the cap level downward in response to unexpected events based on actually mandatory reporting data, which should be available by 2011. Absent an adjustment procedure such as we suggest, given the proposed, “limited and specific conditions under which such revisions would occur,” the method of forecasting future emissions would become all that much more important.

We agree that providing certainty and market stability are important goals. However, we disagree that this approach – allowing for only very limited adjustments to cap levels prior to the program going into effect – will do much to provide an early or more reliable market signal. Up until the time when there is price discovery, which presumably will first occur when there is an auction, capped entities will be able to do nothing more than speculate about prices. Adjusting the cap level will not have much effect. The price of allowances will be determined by not only cap level alone, but also the investment choices and abatement options for all entities capped under the program. Since capped entities could never be certain about the abatement costs curves or abatement investment strategies of their counterparts, there will always be some uncertainty.

#3 – Lack of recognition of interactions between the cap level necessary in sectors capped under a cap-and-trade program and expected emissions from sources not regulated under cap and trade.

The WCI emission reduction commitment is an economy-wide one. Cap and trade covers much but not all of the economy. The amount of reductions required under cap and trade therefore interacts with what is left out of cap and trade. This reality does not seem to be recognized by the Draft Guidance, except in Figure 2, where the economy-wide goal is shown as distinct from the limit on emissions created by cap and trade. The emissions



expected in sectors not covered by cap and trade will have to also be forecast. It is not clear whether or how this reality will be addressed, given the lack of information about the forecasting exercise. See below for comments on this topic previously submitted to the Committee.

#4 – Incentive to inflate claims about new sources.

While joining the WCI is a voluntary act indicative of a commitment to avoiding the over-heating of our planet, the CSAD Committee is not doubt also aware of incentive that would run counter to emission reduction intentions. Each allowance is a valuable commodity, and this will create upward pressure on cap levels. One area where this might play out is in claims about new sources: “new sources are sources which are not included in the Partner jurisdiction’s emission inventory but are expected to be emitting covered GHGs prior to January 1, 2013.” There will be a significant period of time between when the Partner annual budgets are finalized in autumn of 2011 and the end of 2012. A true up process is needed whereby allowances from future periods must be turned over by Partner jurisdictions that claim new sources that do not materialize on the ground. It might be worthwhile considering a penalty associated with such a true up process to discourage exaggerated claims.

Lastly, we would like to raise an issue related to ensuring adequate progress toward 2020 emission commitments. Section 2.2.1. asserts that the  $ROD_1$  (rate of decline for the first phase of the cap-and-trade program) “shall be greater than zero.” This is inadequate, and is less clear and less ambitious than the definition of  $ROD_1$  set forth in section 3.1.1.d. In section 2.2.1., we would recommend that you add the following italicized description: “shall be greater than zero *and use the procedure explained in 3.1.1.d.*”

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**WeCAN Comments, Questions, and Recommendations for the WCI CSAD committee on 2009-2010 Workplan, submitted April 15, 2009:**

Task 1 – Data review and collection
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Comment: The name for this task is somewhat misleading, as another fundamental task involves forecasts of future emissions. This adds another element of complexity, and is arguably more complicated than simply getting the accounting correct. That is, “what will be,” is more difficult to know than “what is.” In particular, the forecast of emissions



outside of capped sectors will determine the reductions that will be needed by cap-and-trade.

Question: Task 1.2 describes an output that will be “WCI Partner jurisdictions 2020 projected emissions for non-covered source categories.” This does not mean that only a single year’s emissions will be forecast, but rather the annual trajectory from the present going forward? Will this be true for other sectors too?

Question: How will uncertainty vis-à-vis sectors not included in the cap-and-trade program be considered? This is a serious issue. If a “best guess” approach is taken, meaning that there is a 50% chance of overestimating or underestimating the actual emissions that will occur in uncapped sectors, then there will be a large probability that WCI emissions will not meet stated economy-wide targets.

Recommendation: Add a sub-task, after 1.1, that involves a white paper that (1) explores lessons learned from the emission forecasting exercise undertaken in RGGI, and (2) identifies potential forecasting methods, with advantages and disadvantages of each. At the least, a proposed forecasting methodology should be proposed, the approach for dealing with uncertainty in uncapped sectors should be explained, and public comment should be invited. As written, the plan does not seem to invite public involvement in the emissions forecasting exercise. This will be a methodologically challenging effort and the Partners would benefit from inviting external input.

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