WeCAN
Western Climate Advocates Network

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Thank you for considering these comments 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). WeCAN appreciates the opportunity to respond to the WCI White Paper on Early Reduction Allowances (ERAs).

WeCAN members share common objectives that we consider when evaluating all WCI recommendations, including the environmental integrity of the cap, efficiency, equity, enforceability and consistency. Also, it is important that the WCI design preserves the option of linkage to other cap-and-trade programs with similar environmental stringency. Fundamental to these goals is the setting of a cap that creates sufficient allowance scarcity to send a strong price signal to push innovation toward a clean energy economy.

WeCAN agrees with the need to avoid over allocating allowances via treatment of ERAs and appreciate that this has been identified as an important design criterion. Unfortunately, we are not persuaded by the logic in the Design Recommendation[1] and associated White Paper[2] that the proposed treatment will address this concern sufficiently. The Design Recommendation rationale for adding ERAs to the 2012 cap is that that alternative approach would have ERA be part of individual jurisdictions' budgets. In fact, both methods have the potential to contribute to over allocation of allowances.

The White Paper is similarly incomplete in its consideration of over allocation potential. On page one, it says "in order to prevent such an over allocation and to ensure the quality of reductions, ERAs will have to be issued based on clearly established criteria to ensure that reductions are voluntary, additional, real, verifiable, permanent and enforceable." While WeCAN agrees with the need to ensure high quality reductions, and that these criteria in particular are appropriate for quality assurance, they are not sufficient guarantee against over allocation. Requirements for quality may indeed reduce the number of ERAs, but these criteria in no way limit the total available ERAs

[1] Western Climate Initiative. Design Recommendations for the WCI Regional Cap and Trade Program. September 23, 2008, Section 1.10 starting on page 34.
[2] Western Climate Initiative. Early Reduction Allowances White Paper. May 14, 2009.

nor do they ensure that the forecast of the quantity of ERAs that will be approved and will be part of the cap setting process will be accurate.

WeCAN concurs with the need to inspire early action. Such inspiration should not come at the expense of environmental integrity, nor should it risk undermining a strong price signal. We agree with the White Paper that the prospect of having to acquire allowances thru auctions will inspire early actions because such actions reduce the need to purchase allowances.

With a plan to administratively allocation a large portion of allowances, however, the incentive benefits of auctions are reduced. In fact, the prospect of free allowance allocation based in some way on historic emissions creates a potentially strong incentive to avoid early reduction if the basis year after 2008.

While WeCAN is pleased that the Design Recommendations endeavor to establish "a reserve or price minimum" (Section 8.10 page 8). Clearly, there is an interplay between the amount of ERAs, the magnitude of the pool of allowances held in reserve, commitments to using the allowance reserve and other resources to ensure a minimum allowance price, and expectations for over allocation of allowances due to the treatment of ERAs or other design features.

We now turn our attention to the list of questions posed in the White Paper.

1. What ERA approach best fulfills WCI's goal to encourage emissions reductions prior to the cap and trade program start in 2012?

A commitment to auctioning allowances will provide a strong incentive for early action. Therefore, the impetus for "extra" incentive anticipated from the WCI recommendation to add ERA to the cap will be lessened if there is clear indication from the WCI Partners that auctioning will be the primary means of allowance distribution.

Any incentive system for early action that ultimately adds allowances to the cap is an unsatisfying treatment because it violates the environmental integrity of the cap. Early reductions in exchange for later emissions is not in line with the broad social objective of quick action. We hope to inspire speedy reductions that are permanent, but adding those reductions as ERAs to the cap subsequently essentially undermines permanence.

The proposed treatment may also violate the integrity of the cap if there are errors in reconciling the difference between forecasted and actual ERAs when the cap is set.

2. In the programmatic approach to ERAs:
    a. What criteria should WCI Partners use to evaluate ERA projects?

The White Paper provides an appropriate and complete list of criteria, and they should be utilized with the same rigor that they will be employed for offsets crediting.

    b. Will it be necessary to establish an application process for ERAs prior to the final regulation in 2010/11 in order to issue ERAs in 2012?

No comment.

    c. Should the WCI develop general guidance documents to ensure consistency in the implementation of the program (rather than develop project specific protocols)?

No comment.

3. Under an ERA baseline approach, what documentation should be required to establish the baseline?

WeCAN is focused on ensuring ERAs are awarded for actions that result in greenhouse gas emissions reductions that are additional, verified, real, permanent and enforceable. Two key pieces of information needed for establishing real and additional reductions are historic and forecasted business-as-usual baselines (when evaluating additionality for a collection of activities), or performance benchmarks for particular types of projects. It is paramount that WCI program design put in place strong guidance for and regulatory review of baseline forecasts and performance benchmarks. Guidelines and careful review of baseline forecasts will minimize the potential for manipulating the baseline calculation to imply more early action reductions. The requisite documentation should be expected to vary by source type, but it must be sufficient to provide information needed to establish a rigorous and reliable baseline using transparent and consistent methods.

4. ERAs are administered by the jurisdictions. Are there functions that would benefit from being coordinated through the regional administrative body? If so, which ones?

Coordination between WCI Partners will be important for detecting unsubstantiated claims of reductions, as well as to avoid double counting, such as awarding ERAs in two jurisdictions for a single action.

5. Should there be a limit on the number of ERAs issued? If so, what should the limits be based on?

The White Paper notes that other program designs provide little guidance on quantitatively limiting ERAs. Indeed, WeCAN agrees that more early action is better than less early action. To the extent that ERAs are treated in ways that contribute to over allocation of allowances or that violate the cap, we would prefer to revisit the ERAs treatment rather than limit early actions quantitatively.

Given the administrative demands that will be required to develop each type of ERA eligible action, and the constrained resources that regulatory agencies necessarily confront, one practical constraint will be the need to consider tradeoffs between investment in developing protocols and methodologies to enable issuance of ERAs and investments in developing other aspects of the regulatory framework.

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