Sustainability & Climate Change Reporter

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States Continue to Go It Alone on Cap & Trade -- But For How Much Longer?

The demise of the climate bill in the U.S. Senate now leaves the Regional Greenhouse Gas Initiative ("RGGI") and the Western Climate Initiative ("WCI") as the only cap-and-trade programs in the U.S. RGGI, which covers 10 northeastern and mid-Atlantic states, holds its ninth auction of emissions allowances in September; meanwhile the WCI, made up of seven U.S. states and four Canadian provinces, has just released a design document for its program, the centerpiece of which is cap-and-trade.

In the on-going vacuum created by the lack of federal legislation to put a price on carbon, the states continue to be where most of the action is. But all is not necessarily well at the state level. Prices for RGGI's emissions allowances have dropped substantially from a year ago and the viability of WCI's ambitious design could hang on the outcome of this November's vote in California to suspend the state's climate law.

RGGI Pricing

RGGI has been up and running since September 2008 as the only market-based mandatory emissions allowance program in the U.S. Although RGGI is limited to the power generation sector, the predominance of coal-fired power plants among its member states makes that sector a signficant source of greenhouse gas emissions.

Finding a meaningful, sustainable price for RGGI carbon allowances has been tricky. RGGI's first auction in September 2008, emissions allowances sold for \$3.07 per metric ton, they reached a high of \$3.51 per ton in the March 2009 auction, but dropped to \$1.88 in the most recent auction last June. The next auction on September 8, 2010, will be an important indicator of the health of the U.S. emissions allowance market.

WCI-Lite?

The WCI design has been two years in the making. The primary component is a cap-and-trade program that is broader than RGGI's. The WCI design uses a market-based approach and targets reducing greenhouse gas emissions 15% below 2005 levels by 2020. Amy Boyd at the Foley Hoag Law and Environment Blog provides a good summary of WCI's key design features, as well as pointing out some of the details yet to be determined.

But, as Felicity Berringer pointed out in her New York Times Green blog earlier this week, the WCI program leaves out, for now, transportation emissions, which are one of the key sources of the region's greenhouse gas emissions. Mobile sources constitute a larger share of most WCI members' emissions than does power generation due to the greater reliance on hydro power. WCI's design, however, intends to wait until 2015 to cover emissions from transportation and other fuels.

During the course of developing the design, the regional and national economies took a deep nosedive and still have not recovered, leading to a decline in the number of states agreeing to implement the program. Legislatures in Washington and Oregon failed to pass measures to authorize participation in the cap-and-trade program; Arizona and Utah likewise are standing on the sidelines. That leaves California and New Mexico, along with the Canadian provinces of British Columbia, Ontario and Quebec, as only jurisdictions moving forward with cap-and-trade.

Wither California?

The big unanswered question overshadowing WCI's design is what effect would passage in California of Proposition 23 have on the regional cap-and-trade program? Prop. 23 would suspend California's climate change law, AB 32, until the state's unemployment drops below 5.5% for four consecutive quarters, which has only happened three times in the past 22 years. Since California represents a third of all the WCI's greenhouse gas emissions, pulling that state out of the WCI could have a significant impact on the viability of the cap-and-trade program.

Could WCI, with or without California, team up with RGGI to create an emissions allowance market that covers a large portion of the U.S. greenhouse gas emissions? RGGI has issued a statement congratulating WCI on the release of its design, looking forward "to continued collaboration to share best practices and successful innovations," and concluding that "working together, state and regional programs can serve as a model for strong national climate policy, and as an engine for a cleaner energy future." So, it looks like, in the absence of federal leadership, the states will continue to do the heavy lifting.

Lane Powell PC | Your Pacific Northwest Law Firm®

Seattle
1420 Fifth Avenue
Suite 4100
Seattle, WA 98101-2339
Phone: 206.223.7000
Fax: 206.223.7107

Portland
601 SW Second Avenue
Suite 2100
Portland, OR 97204-3158
Phone: 503.778.2100
Fax: 503.778.2200

Olympia
111 Market Street NE
Suite 360
Olympia, WA 98501
Phone: 360.754.6001
Fax: 360.754.1605

Anchorage
301 West Northern Lights Blvd.
Suite 301
Anchorage, AK 99503
Phone: 907.277.9511
Fax: 907.276.2631

London
Office 2.24
148 Leadenhall Street
London, EC3V 4QT, England
Phone: 020.7645.8240
Fax: 020.7645.8241