

The cap & trade discussion draft summarized herein was released on October 7, 2008 by Rep. John Dingell (D-MI), then head of the House Energy and Commerce Committee, and Rep. Rick Boucher (D-VA), then chair of the Energy and Environment Subcommittee. Dingell has since been replaced by Rep. Henry Waxman (D-CA) and Boucher by Rep. Edward Markey (D-MA). The discussion draft is therefore unlikely to form the basis of Federal legislation, but it represents policy approaches espoused by conservative Democrats without whose support climate legislation is unlikely to succeed.

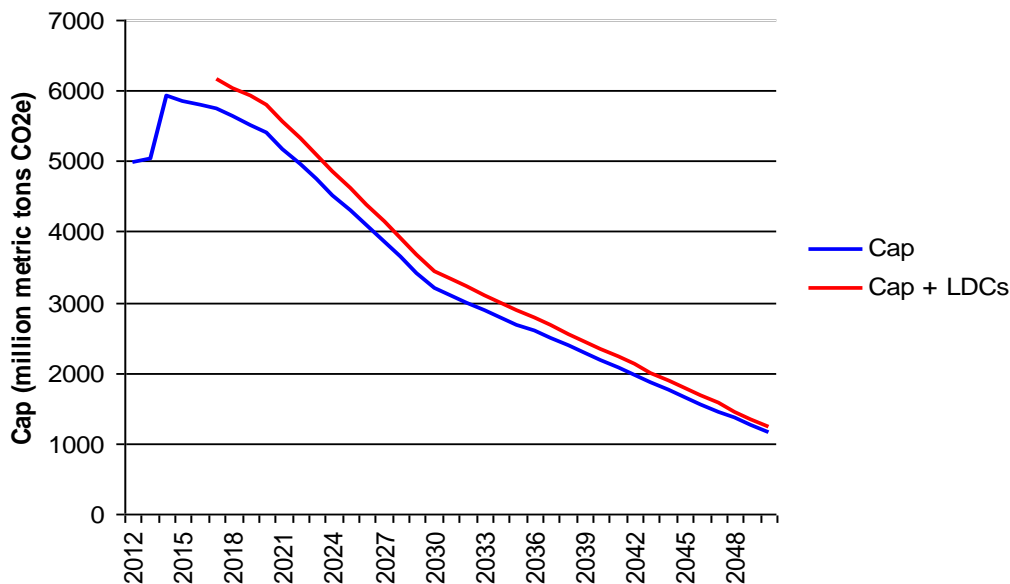
Scope

Dingell-Boucher covers emissions of seven greenhouse gases (carbon dioxide, methane, nitrous oxide, nitrogen trifluoride, sulfur hexafluoride, hydrofluorocarbons, and perfluorocarbons) from electricity generators, industrial facilities, and, at the point of import or production (upstream), natural gas and transportation fuels. Coverage is limited to entities with direct annual emissions greater than 25,000 metric tons of carbon dioxide equivalent (CO₂e) or providers of natural gas or transport fuel, the combustion of which will result in 25,000 metric tons of CO₂e.

Mobile sources of GHG emissions and HFC production/importation fall outside the cap and are treated through performance standards. Additionally worth noting, Dingell-Boucher would eliminate EPA's authority to regulate GHGs as criteria pollutants or hazardous air pollutants under the Clean Air Act.

The Cap

The Dingell-Boucher initially climbs to 5,912 million metric tons of CO₂e in 2013 before declining. The cap reaches a 6% reduction in emissions below 2005 levels by 2020 on the way to an 80% reduction by 2050. With the exception of the Bingaman-Specter bill, Dingell-Boucher sets the most modest near-term targets for emissions reductions, though its long term (2050) targets achieve similar reductions to other proposals. In addition to the cap, allowances are allocated directly to local electric distribution companies (LDCs) based on historic emissions (red line).



Distribution of Allowances

Dingell-Boucher presents four options for allocating allowances, with different proportions of allowances allocated to different sectors under each option. In the absence of new legislation a universal auction of allowances would replace any chosen allocation scheme from 2026 onward.

	Option A	Option B	Option C	Option D
Electric Sector	44%	28%	22%	0%
Industrial Sector	14%	15%	19%	0%
Early Action	3%	3%	3%	3%
Auction*	38%	54%	56%	97%

*Allowances to be auctioned may initially be allocated to support individual programs, but are then auctioned to generate programmatic revenue (e.g. to support renewable energy deployment).

Use of Proceeds

Use of proceeds from allowance auctions varies under the four distribution auctions, but can generally be described as follows:

- **Energy Efficiency** programs carried out at the state level receive 9.5% to 13.5% of revenue, decreasing over time.
- **Clean Technology** receives 10.75% to 16.25% of revenue, increasing over time.
- **Climate Change Management** programs focusing on international assistance and domestic adaptation receive 0.5% of revenue under all options.
- **GHG Reduction** programs administered by the EPA receive 3% to 5% of revenue, decreasing over time.
- **Green Jobs** training receives 1% of revenue under options B & C.
- **Consumer Rebates & Deficit Reduction** receive 18% to 30% of revenue under options A, B & C, and 70% - 75% of revenue under option D.

Cost Containment

International Emission Allowances from systems deemed eligible by the EPA may be used for domestic compliance.

Early Action Credits will be awarded using 3% of allowances in 2012-2013 and 2% of allowances in 2014-2026. Allowances from pre-existing programs will be converted based on the costs of purchasing and holding allowances rather than by a pre-determined conversion factor.

Banking of allowances will be allowed without limitation, allowing buyers to retain or use for future compliance any unused allowances.

Borrowing of allowances from the year immediately preceding the current year is allowed without interest. Allowances may be borrowed up to 5 years into the future to meet 15% of compliance, with an 8% interest rate paid at the time of usage.

Offsets may be used to achieve compliance as follows:

2013-2017: up to 5% (domestic or international)

2018-2020: up to 15% (domestic or international)

2021-2024: up to 15% domestic, up to 15% international

2025-2050: up to 20% domestic, up to 15% international

Offset projects are initially limited to methane capture and combustion from coal mines, landfills and agricultural operations, and afforestation or reforestation of land not forested as of January 1, 2008.

A **Strategic Reserve** of allowances will be available for covered entities to purchase at quarterly auctions. 2,665,000,000 allowances will initially be allocated to the strategic reserve, and offset credits used for compliance will be converted to strategic allowances, in addition to any unsold allowances from strategic or general auctions. Allowances from the strategic reserve may be used to meet 10% of compliance, and will initially be offered for \$20-30 per ton in 2012, with prices in subsequent years increased by 5% plus the rate of inflation. Strategic reserve auctions will be limited to 5% of the cap in 2012-2016 and to 10% of the cap thereafter.

Trade Protections

Importers of primary products (glass, steel, cement, aluminum, etc.) and consumer products from countries not under GHG emission reduction systems will be required to submit 'international reserve allowances' or international allowances equivalent to the emissions associated with the manufacture of the imported goods. Revenue from the sale of international reserve allowances will be directed to adaptation programs in developing countries



Rockport, ME / Portland, ME / Boston, MA / Providence, RI /
Hartford, CT / Charlottetown, PE, Canada

www.env-ne.org

Peter Shattuck, Research Analyst, (617) 742-0064

pshattuck@env-ne.org

Leslie Malone, Policy Associate – Canada, (902) 628-1493

lmalone@env-ne.org

Michael Stoddard, Deputy Director and Attorney, (207) 761-4566

mstoddard@env-ne.org

Environment Northeast is a nonprofit research and advocacy organization focusing on the Northeastern United States and Eastern Canada. Our mission is to address large-scale environmental challenges that threaten regional ecosystems, human health, or the management of significant natural resources. We use policy analysis, collaborative problem solving, and advocacy to advance the environmental and economic sustainability of the region.