

Lessons for Federal Cap & Trade

Key Elements of the first U.S. Mandatory Greenhouse Gas Cap & Trade System

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As Congress contemplates comprehensive climate legislation, practical experience with the design and implementation of a cap-and-trade system has become invaluable. These documents describe critical elements of the Regional Greenhouse Gas Initiative (RGGI). RGGI applies to electricity generators of greater than 25 megawatt capacity in Maryland, Delaware, New Jersey, New York, Connecticut, Massachusetts, Rhode Island, Vermont, New Hampshire, and Maine. It requires a 10% reduction in overall emissions below 2009 levels by 2019. The cap level limits the quantity of emissions allowances available and the resulting market rewards generators that produce cleaner energy and therefore require fewer allowances than high-emitting generators. The summary points below are elaborated in the attached document.

- 1) Allowances should be auctioned rather than provided to emitters for free, and auction revenue should be invested in energy efficiency to provide the greatest possible benefit to the bill-paying public.
 - a) Investing in energy efficiency is the most cost-effective way to achieve emissions reduction goals. Efficiency investments reduce both demand for energy and emissions, and they have significant system-wide benefits, including lower energy prices, increased spending in the wider economy, and improved energy security and energy system reliability.
 - b) By reducing demand for energy, efficiency is the most effective tool for reducing cost impacts for all consumers, especially low-income consumers. As such, efficiency should receive a significant portion of auction revenue, as it does in RGGI – where states have allocated almost 70% of auction proceeds to efficiency.
 - c) The auctioning of allowances requires all emitters to recognize CO₂ emissions as a basic cost of doing business, driving a fundamental shift in the valuation of low-carbon energy resources over climate-averse fossil-fuel power.
- 2) A cap-and-trade system creates advantageous market conditions and robust revenue streams for climate policies that benefit local communities and the region as a whole.
- 3) The cap should be based on careful examination of emissions from regulated entities, and should be reviewed and adjusted periodically to achieve emissions levels science informs us are needed.
- 4) The voluntary purchase of renewable energy, or “green power,” supports cap-and-trade objectives, and to avoid undermining these emissions reductions a mechanism for retiring allowances proportional to green power purchases should be included in a federal cap-and-trade program.
- 5) As in RGGI, offsets should come from high-quality emissions reductions from outside the regulated sector(s). Offset projects should pass integrity evaluations that guarantee real, verifiable, additional, permanent, and enforceable emissions reductions. Evaluations should use performance standards in order to avoid gaming and to minimize administrative burden.