



The U.S./Canada Carbon Pricing Dialogue

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Overview

- Brief update on status and provisions of Waxman-Markey bill in U.S.
- U.S./Canada – differences and similarities
- Role of complimentary programs
- Regulatory role in Waxman-Markey
- Future role of Carbon Pricing Dialogue

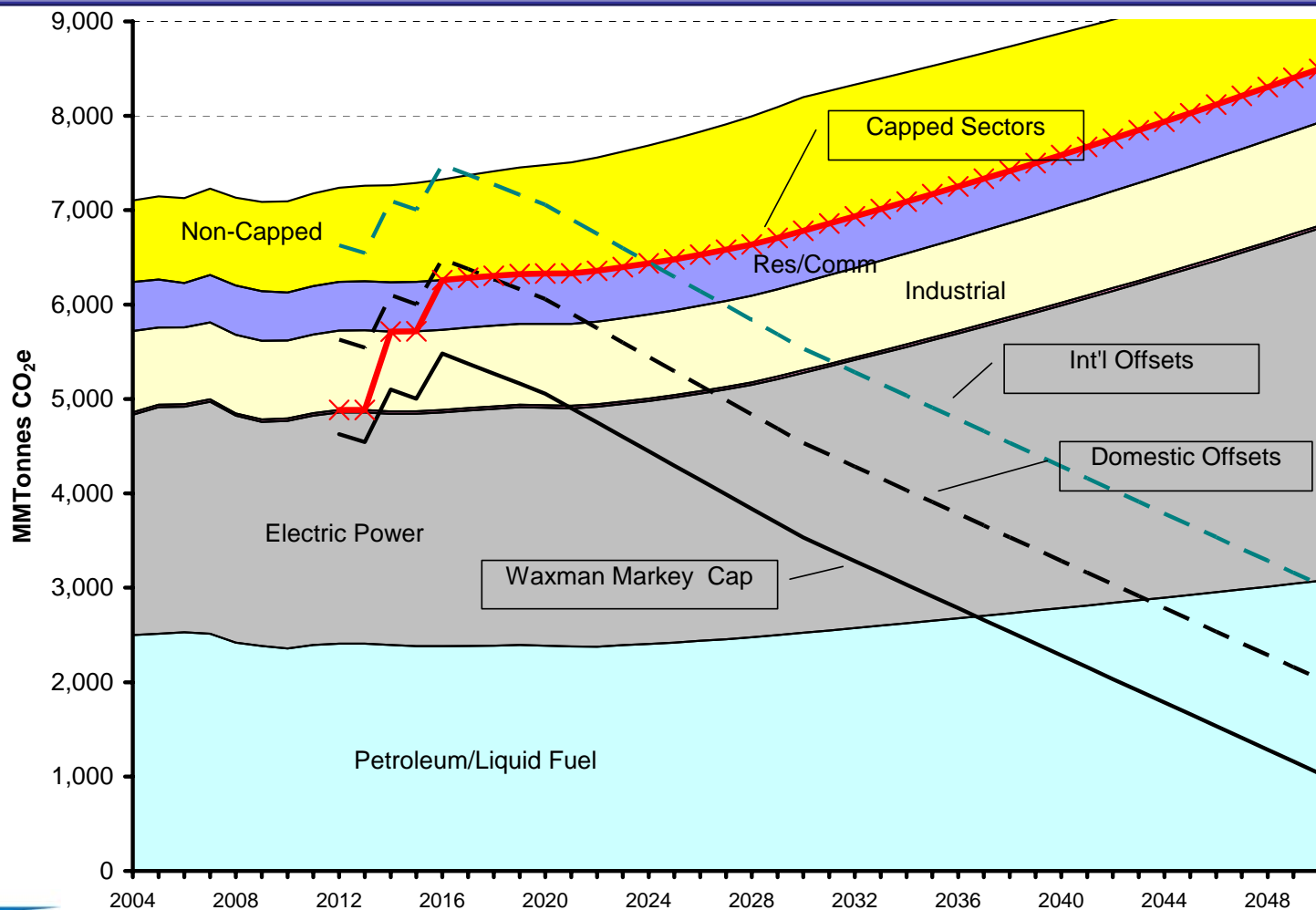
Waxman/Markey Bill – HR 2454

- American Clean Energy and Security (ACES) Act
- Passed by the House on June 26, 2009.
- National, economy-wide cap and trade program starting in 2012.
- Reductions from 2005 levels:
 - 3% in 2012
 - 17% by 2020
 - 42% by 2030
 - 83% by 2050

Mechanics of Cap And Trade

- Establish a tonnage cap in a set of emission sources.
- Distribute permits to emit one ton – allowances.
- Each year, regulated sources must hold allowances equal to their emissions.
- Sources can choose how to comply and can buy and sell allowances.
- Allowances can be given away for free or auctioned and can be given to non-regulated entities as a source of funding.
- This raises many new issues for regulated industries and energy markets.

Waxman/Markey Cap and Offsets



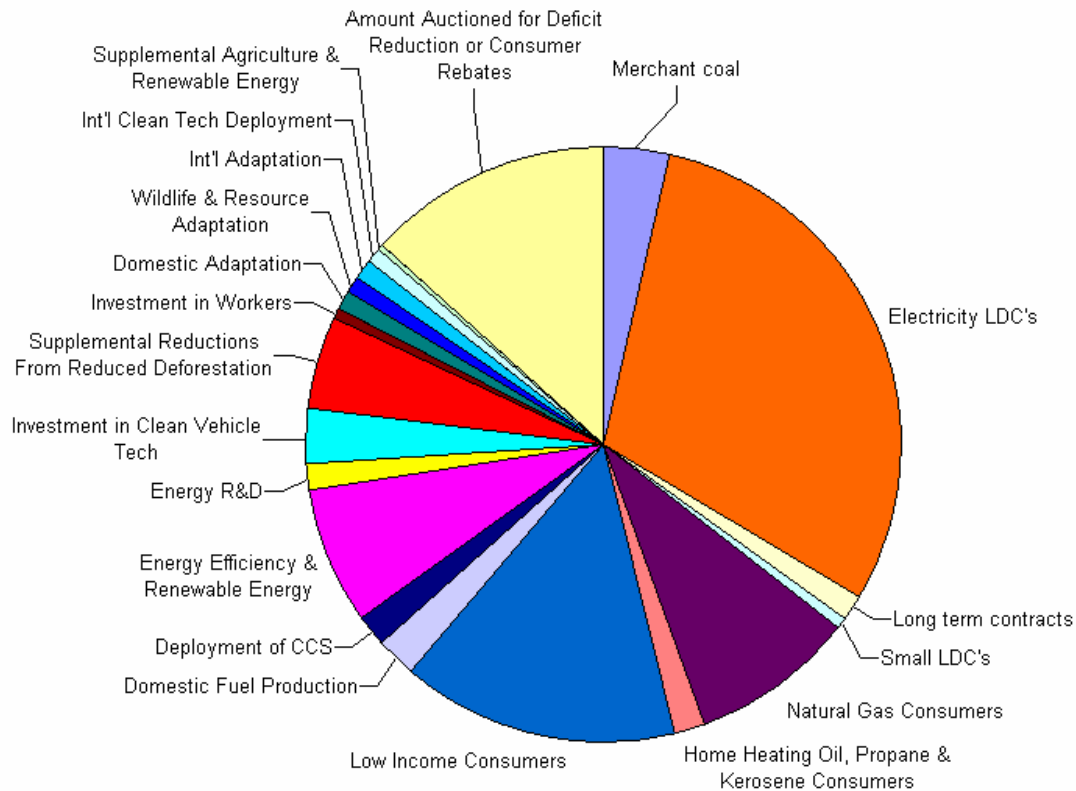
Point of Regulation (Who is Covered)

- At point of emission (downstream) for facilities that emit >25,000 tons GHG/year
 - Electric utilities
 - Industrial facilities (including gas pipeline compression facilities)
- At point of production (upstream) – for CO₂ emitted from combustion of fuel produced or delivered.
 - Petroleum refiners and importers
 - Coal to liquids plants
 - Natural gas liquid producers
 - Gas LDCs (for deliveries to non-covered entities)
 - Producers and importers of high GWP gases
- Oil and gas production not covered

Allowance Allocation

- Electric and gas LDCs to receive free allowances “for the benefit of consumers”. Also allowances to states for home heating oil and propane users.
- Merchant coal plants to receive allowances that do not create a “windfall”. Allocation to power plants with long-term contracts.
- Certain carbon and energy-intensive industries subject to foreign competition to receive allowances.
- Allocations to states for energy efficiency and renewable projects.
- Remaining allowances to various public and R&D funds.

HR 2454 Allowance Allocation



* Allocation to Trade Vulnerable Industries not Included

Role of Regulators Under Waxman-Markey

- W-M provides the biggest allocation of free allowances to gas and electric LDCs “on behalf of ratepayers”.
 - Value could be over \$40 billion per year.
- This will expand the role to be played by regulators
 - How to treat the value of allowances
 - How to define consumer benefit
 - Balance between investment in energy efficiency and rate mitigation
 - How to mitigate cost increases without dampening price signal
 - How to provide consistency between restructured and non-restructured markets

Complementary Measures

- Pricing is a necessary but not sufficient aspect of GHG reduction
- Some sectors will need other programs – notably energy efficiency in the residential/commercial sector.
- Regulators will play a key role in the promotion and execution of energy efficiency programs.

Canada/U.S. Similarities and Differences

- Both have Federal action coming on top of state/provincial programs.
- Both are large emitters of energy-related GHGs
 - Compliance will require fundamental changes in energy consumption patterns and infrastructure
- Canada more focused on carbon tax. U.S. focused on cap and trade.
 - The difference can be fuzzy depending on the specific structure.
 - U.S. still probably not headed towards a tax.

Future Role of Pricing Dialogue

- There will be a lot to be done to coordinate existing provincial and state regional programs with developing federal programs in both countries.
- Canada seems disposed to coordinate with/follow the U.S. lead on Federal regulation.
 - There will substantial work required to coordinate/harmonize regulation between the countries, especial for energy markets.
- A broader pricing Pricing Dialogue could be a valuable contribution to the process

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