



DEPARTMENT OF
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State of Washington

2008 Western Climate Initiative

Response to public comment

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2008 Western Climate Initiative

Response to public comment

by

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Introduction and Background

In February 2007, the State of Washington entered into a cooperative agreement with the states of Arizona, California, New Mexico, and Oregon called the Western Climate Initiative (WCI) to implement a joint strategy to reduce greenhouse gas (GHG) emissions. This includes the design and implementation of a regional cap-and-trade program. With the addition of British Columbia, Manitoba, Ontario and Quebec, and the states of Montana and Utah, the WCI covers 20 percent of the United State's economy and over 70 percent of Canada's.

The WCI governors and premiers are committed to taking action to address global climate change and reduce GHG emissions. They are convinced we can't wait any longer to take action because the impacts of climate change are being felt in our states and provinces already. We see:

- Rising temperatures
- Changes in precipitation
- Rising sea levels
- Increased frequency of heavy rainfall
- Increase in flooding
- More heat waves
- Fewer very cold days
- Increase in areas affected by drought.

The WCI governors and premiers all agreed to three specific tasks¹:

- 1) Join a multi-state GHG emissions registry (The Climate Registry).
- 2) Develop a regional GHG reduction goal consistent with their own state and provincial goals.
- 3) Design a regional cap-and-trade program (defined as a multi-sector and market-based mechanism to help meet the GHG reduction goal) to address climate pollution.

The WCI jurisdictions have also agreed to a regional GHG emission reduction goal of 15 percent below 2005 levels by 2020.

The Climate Registry

Each of the WCI jurisdictions have joined The Climate Registry. The Climate Registry is a national non-profit organization that establishes consistent, transparent standards throughout North America for businesses and governments to calculate, verify, and publicly report their carbon footprints in a single, unified registry.

¹ See the Memorandum of Understanding, dated February 26, 2007, at <http://www.westernclimateinitiative.org/ewebeditpro/items/O104F12775.pdf>

Proposed regional cap-and-trade program

The WCI jurisdiction's proposed cap-and-trade program issued on September 23, 2008 is the most expansive cap-and-trade program designed in the United States (U.S.) to date. It covers more sectors and GHGs than the East Coast Regional Greenhouse Gas Initiative (RGGI) or the European Union's Emission Trading Scheme (EU-ETS).

As designed, the program will cover about 90 percent of the region's GHG emissions when it is fully implemented in 2015. Recognizing that mandatory federal GHG reduction programs may emerge in the U.S. and Canada, the WCI jurisdictions designed a program that can stand alone, provide a model for, be integrated into, or be implemented in conjunction with future federal programs.

Purpose

Staff at the Washington State Department of Ecology (Ecology) worked together to respond to the recent public comments on the WCI received from Washington stakeholders. To keep this response to comments to a reasonable size, comments were paraphrased as "perspectives" or "themes." The public comment letters can be viewed in their entirety on the WCI website at www.westernclimateinitiative.org.

The purpose of this document is to:

- Summarize key perspectives and themes from the public comments on the WCI received from Washington stakeholders.
- Provide concise and high level responses when supplemental information is available (in addition to what the WCI jurisdictions have already provided to the public). The responses serve to further clarify Ecology's approach to climate change policy and to the WCI.

Besides this summary and response to public comments, readers may view the *Background Report on the Design Recommendations for the WCI Regional Cap-and-Trade Program* (the WCI Background Report) and the *Design Recommendations for the WCI Regional Cap-and-Trade Program* (the WCI Design) on-line at www.westernclimateinitiative.org.

The WCI Background Report discusses:

- WCI Partner recommendations in light of stakeholder input,
- The balancing of differing stakeholder positions,
- Lessons learned from other cap-and-trade programs,
- Economic analyses, and
- Expert opinion on the design of a cap-and-trade program.

WCI Stakeholders

These responses to public comments summarize the perspectives of Washington stakeholders, listed below, who provided comments on the Western Climate Initiative in 2008. Below is a list of WCI stakeholders.²

- Alcoa
- Ash Grove Cement
- Avista
- Boise Inc
- BP America
- Chelan Public Utility District (PUD) Inc No. 1
- Chevron
- City of Seattle
- Clark PUD
- Climate Solutions
- Cogeneration Association of Washington
- ConocoPhillips
- Douglas County Global Warming Coalition
- Douglas County PUD No. 1
- ExxonMobil
- Florida Power & Light
- Grant County PUD
- Gregory, Jay
- Independent Energy Producers Association
- Industrial Consumers of Northwest Utilities
- Interfaith Power and Light
- Labor coalitions (representing labor groups from Western US States and Canadian Provinces)
- Lafarge Cement
- Morgan Stanley Capital Group
- Nucor Steel Seattle
- Northwest Food Processors Association
- Northwest Pulp and Paper Association
- Pacific Forest Trust
- PacifiCorp
- Pacific Gas & Electric Co.
- Pacific Northwest Generating Cooperative
- Public Power Council
- Puget Sound Energy
- Saint-Gobain Containers
- Sightline Institute
- Smurfit Stone
- Snohomish County PUD
- Tacoma Public Utilities (Tacoma Power)
- Terrapass
- TransAlta
- Washington Budget and Policy Center
- Washington Forest Protection Association
- Washington Public Utilities Association
- Washington Rural Electric Co-op Association
- Western Climate Advocates Network
- West First
- Western Forestry Leadership Coalition
- Weyerhaeuser
- Williams
- Western Power Trading Forum
- Western States Petroleum Association

² A Washington state stakeholder is defined as a company, non-profit organization, individual, coalition, association or interest group that provided comments on the WCI process in 2007-2008 and is located in or does business within the state.

Washington State Outreach on WCI

The Washington Department of Ecology and our state agency partners have conducted outreach to stakeholders since the WCI was originally launched in 2007. Ecology staff members communicated with stakeholders via face to face meetings, presentations, email list serves, and our climate change website.

State-only stakeholder meetings

From October 2007 to August 2008, seven meetings specifically for Washington stakeholders were held in Washington. Each meeting also had a call-in option. On average, 20 people attended each meeting in person and 25 participated by phone. In January and February 2008, three meetings were held for people who commented specifically on the WCI work plan. On average 12 people attended each meeting in person and 13 participated by phone.

Individual stakeholder meetings

In 2007 and 2008, more than 50 individual meetings were held with various stakeholders.

Presentations

In 2008, Ecology staff gave more than 40 presentations on WCI and climate change to various organizations and associations.

Washington climate listserv

The Washington Climate Listserv provides information via email on meetings, updates, and accomplishments from the various committees in the state working to address climate change. The listserv was launched in April 2007 to provide information on climate change issues in Washington. The climate listserv has attracted more than 1000 subscribers and sends updates to the list about once or twice per week.

Ecology's climate change web site

Ecology maintains a web site focused on climate change policy, actions, and stakeholder events. This web site provides up-to-date information and reports on many topics including:

- 2008 Summary of actions
- Western Climate Initiative (WCI)
- Forestry & Agriculture
- Cap-and-Trade issue reports
- Mandatory reporting
- The Climate Registry
- Washington State's green economy
- Disclosing vehicle GHG emissions
- Climate change education
- Climate change in the news
- Reports on specific cap-and-trade issues
- WCI design recommendations report
- WA Interim Report: Leading the Way on Climate Change: the Challenge of Our Time
- Governor Gregoire's policy briefs on climate change
- Governor 's Executive Order on Climate Change Economic Impacts of Climate Change
- Washington State GHG inventory and reference case projections, 1990-2020

WCI Outreach Actions

As a group of seven states and four Canadian provinces, the WCI received more than 245 public comments from organizations and individuals in the last 18 months. In addition, the Western Climate Initiative hosted more than 17 meeting and teleconference calls with more than 100 participants each.

Opportunities for stakeholders to comment on WCI documents

The most recent draft design for the regional cap-and-trade program was released for public comment on July 23, 2008. WCI presented the public with many opportunities to comment on WCI design options, recommendations, and program elements released in October (2007), March (2008), May (2008), and July (2008). These documents are publicly available on the WCI web site (www.westernclimateinitiative.org).

The WCI hosted several stakeholder workshops within the past year to discuss climate change policy. These workshops gave stakeholders a chance to meet with WCI staff and respond to any public WCI documents.

2008 Workshop Dates	Location
January	Portland, Oregon
May	Salt Lake City, Utah
July	San Diego, California

WCI released a series of documents leading up to each of the WCI Stakeholder Workshops – each document was open for public comment for up to three weeks. The following list summarizes the documents opened for public comment and relevant closing dates for each WCI release:

Document Title	Comment Period Closing Date
WCI Option Papers released by WCI Subcommittees	February 1, 2008
WCI Initial Draft Design Recommendations	April 16, 2008
Draft Design Recommendations on Elements of the Cap-and-Trade Program	May 16, 2008
Draft Design Recommendations	August 13, 2008

Workshops for electric utilities

WCI staff also hosted a workshop for representatives from electric utilities and other stakeholders. The workshop was held on July 17, 2008 in Portland, Oregon. The purpose of the workshop was to identify the first jurisdictional approach and how to address electricity imports from non-WCI states and provinces. Three more meetings were organized to address imports, leakage, reporting and tracking, as well as liquidity and reliability issues in late 2008 and January 2009. For more information, see the WCI website at www.westernclimateinitiative.org.

Organization of Comments and Responses

For the purposes of this report a **Washington stakeholder** is defined as an individual, coalition (formal or informal), company, non-profit organization, interest group or association, that has provided comments on the WCI's public process in 2007-2008, and is located in or does business within the state. For each stakeholder listed in the document, the date (month and year) of their relevant comment is also provided.

Key **perspectives** were defined after an analysis of the stakeholder comments – focusing on recent comments received in May 2008 or later. Comment periods were open to any member of the public or any group who wanted to provide feedback on WCI documents. Perspectives emerged when multiple groups or companies reflected some level of commonality or similar viewpoints on the WCI Jurisdictions recommendations.

Two to three **themes** or short summaries from stakeholder comments appear after each perspective to paraphrase the diversity of opinions and feedback received to date. The themes were taken from the comments and do not represent a comprehensive summary of the comments received in each case.

Ecology and staff working on the Western Climate Initiative (WCI) provided the **response** to the stakeholder comments. In some cases, the response is drawn largely from the *WCI Background Report*. In other cases, the response focuses mostly on policy and information from the perspective of Ecology alone. And in several cases, the response combines information from the Background Report and Washington specific policy considerations.

Response to Stakeholder Comments

Key Perspective A - Waiting for Federal Action

A group of stakeholders prefer waiting for federal action on climate change or express concern about how the regional cap-and-trade program will be integrated into a federal program in the future.

Themes:

- A federal program avoids differing approaches at the state or regional level and ensures a level playing field for businesses across the nation.
- GHG reduction projects should be addressed at the national and international levels versus the state and regional levels.
- WCI should design a cap-and-trade program in anticipation of federal legislation – the design must be compatible with a national system. Some stakeholders prefer a single GHG regulatory system.

Stakeholders	Comment Date
Alcoa	8/08
Douglas County Public Utilities District (PUD)	8/08
ExxonMobil	8/08
Northwest Pulp & Paper Association	8/08
PacifiCorp	8/08
Public Power Council	6/08 and 8/08
Puget Sound Energy	8/08

Response:

The US federal government has not yet developed a comprehensive federal approach to addressing climate change and there is no known timetable for them to do so. The design developed by the WCI provides a model for US action, and depending on the form that any federal program may take, could continue as one of several linked regional efforts.

The WCI is one of several market-based greenhouse gas cap-and-trade programs being designed in the US, including the Regional Greenhouse Gas Initiative and the Midwestern Greenhouse Gas Reduction Accord in the Northeastern and Midwest United States. Regional programs with bottom up strategies drive innovation and creativity in addressing global warming. In addition, regional programs can focus on environmental outcomes (GHG reduction goals) – without being distracted by the overwhelming number of players who wish to take part in negotiations on climate change policy at the national and international levels.

See *WCI Background Report* section on the Reasons for a Regional Cap-and-Trade Program (section 2.1) pages 50-51.

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Key Perspective B: Carbon Taxes

Some stakeholders support a carbon tax or carbon fee instead of a cap-and-trade program or would like the alternative of a carbon tax to be considered and evaluated in greater detail as an alternative to cap-and-trade.

Themes:

- Several stakeholders support evaluation of the costs and benefits of implementing a carbon tax versus cap-and-trade.
- Some prefer carbon taxes because they provide cost or price certainty needed to make long term planning decisions.

Stakeholders	Comment Date
Douglas County PUD	8/08
ExxonMobil	8/08
Northwest Paper and Pulp Association	8/08
Puget Sound Energy	8/08

Response:

The WCI jurisdictions determined that a cap-and-trade program was the preferred approach to reducing GHG emissions because it establishes a firm limit on emissions, then lets the market determine the price for making needed reductions. It is more flexible for industry and thus more cost-effective for the economy.

A carbon tax establishes a price for emissions and lets the market determine the quantity of emissions reductions achieved. While a tax provides price stability for those who will pay it, the environmental benefit is not assured because emissions will not fall if people are willing to pay higher costs.

For more information on cap-and-trade, lessons learned from the EU, and lessons learned from other cap-and-trade programs, see the *WCI Background Report – Overview of Cap-and-Trade* (Section 2) starting on page 48.

See issue reports on cap-and-trade as well as factsheets on cap-and-trade at <http://www.ecy.wa.gov/climatechange/index.htm>

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Key Perspective C: Scope

Many stakeholders support the inclusion of transportation fuels in the WCI cap-and-trade program in the first compliance period. A smaller group of stakeholder groups express opposition or hesitation to including transportation fuels in the WCI cap-and-trade program.

Themes

- A large group of stakeholders support the inclusion of transportation fuels in the WCI Design recommendations and some would prefer to include these fuels in the first compliance period (2012) versus the second (2015).
- A small group of stakeholders continue to oppose the inclusion of transportation fuels in the proposed WCI Design for a cap-and-trade program.

Stakeholders in support of including transportation fuels in the WCI Cap-and-Trade program in the first compliance period.	Comment Date
Alcoa	3/08
Chelan County PUD (complete economic analysis)	6/08
Climate Solutions	5/08 and 8/08
City of Seattle	5/08 and 8/08
Clark County PUD	3/08
Douglas County PUD	8/08
Grant County PUD	5/08
Independent Energy Producers Association	5/08
Industrial Consumers of Northwest Utilities– complete economic study	3/08
Pacific Gas & Electric	8/08
Pacific Northwest Generating Council	8/08
Public Power Council	8/08
Puget Sound Energy	5/08 and 8/08
Public Power Council	5/08
Sightline Institute	8/08
Tacoma Public Utilities	8/08
Washington Public Utility District Association	5/08 and 8/08
Western Climate Advocates Network	5/08 and 8/08
Western Power Trading Forum	5/08
Weyerhaeuser	3/08

Stakeholders that oppose or express concerns about including transportation fuels in WCI Cap-and-Trade program in general.	Comment Date
Air Transportation Association	5/08
Association of Washington Businesses	5/08
Chevron	5/08 and 8/08
ExxonMobil	8/08
Western State Petroleum Association	5/08 and 8/08

Response:

Transportation fuels will be included in the cap-and-trade program in 2015. The design calls for the point of regulation to be “upstream” where the fuels enter into the WCI state and provincial economies. By bringing these fuels into the program in 2015, the WCI jurisdictions will have time to determine these points of regulation and assure they are aware of their compliance obligations under the program.

See *WCI Background Report* section 1.1 on Scope, pages 17-20.

For more information on Washington’s regulatory and incentive based policies in the transportation sector and other sectors, see the 2008 Report – *Growing Washington’s Economy in a Carbon Constrained World* available on-line in December 2008 at www.ecy.wa.gov/climatechange.

Key Perspective D: Scope

Some comments ask for further economic analysis of issues such as the inclusion of transportation fuels as well as emissions from residential, commercial, and industrial (RCI) natural gas use.

Themes:

- Further economic analysis will help guide policy on transportation fuels, the electricity sector, as well as the residential and commercial fuels sector.
- Economic research and analysis on WCI should be distributed to and discussed with stakeholders.

Stakeholders	Comment Date
Chelan County PUD	6/08
Washington Public Utilities Districts Association	5/08

Response:

The WCI jurisdictions have done some preliminary economic modeling of the cap-and-trade program it designed, with more work planned. The economic analysis conducted by WCI to-date indicates that a comprehensive cap-and-trade program that covers most sectors of the economy will result in a modest overall cost savings to the economy. Narrowing the scope by removing transportation fuels is expected to increase the price of allowances by 2020.

For more information, see *Appendix B: Economic Modeling Results* available on the WCI website at: <http://www.westernclimateinitiative.org/ewebeditpro/items/O104F19869.PDF>

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Key Perspective E: Scope

Some stakeholder groups oppose the inclusion of residential, commercial, and/ or industrial (RCI) fuels in the WCI cap-and-trade program. Many organizations, on the other hand, support the inclusion of RCI fuels in the WCI cap-and-trade program.

Themes:

- Including only a few sectors in a cap-and-trade program may reduce the liquidity and stability of a new market.
- Residential and commercial natural gas users should not be placed into a cap-and-trade program.

Stakeholders in support of including RCI fuels in WCI Cap-and-Trade program	Comment Date	Stakeholders that oppose or express concern about including RCI fuels in WCI Cap-and-Trade program	Comment Date
Climate Solutions	5/08	American Gas Association	5/08
Clark Public Utilities	5/08	NW Natural Gas	5/08
Industrial Consumers of Northwest Utilities	5/08	Puget Sound Energy	5/08
Independent Energy Producers Association	5/08	Williams	5/08
Public Power Council	5/08	Western States Petroleum Association	5/08
Pacific Northwest Generating Council	6/08		
Western Climate Advocates Network	5/08		
Western Power Trading Forum	5/08		
Washington Public Utilities Districts Association	5/08		

Response:

Residential and commercial fuels are covered in the cap-and-trade program to ensure all emissions are covered and that switching energy types or fuels does not result in increases in emissions. Like transportation fuels, residential and commercial fuels will be covered upstream and will be brought into the program in 2015.

See the *WCI Background Report* section 1.1 on Scope, pages 17-20.

For more information on RCI fuel use and economic modeling, see the *Sensitivity Cases of Appendix B: Economic Modeling Results*.

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Key Perspective F: Scope

Some stakeholders express support for excluding biomass and biofuels from the cap-and-trade program, while other organizations state concerns over exempting biomass and biofuels from the program.

Themes:

- Excluding biomass and biofuel emissions from a cap-and-trade program may create an incentive to bring more cogeneration or combined heat and power (CHP) facilities on-line, and these facilities are not necessarily net-zero emission sources.
- The WCI Design section on biomass and biofuels needs further elaboration and clarification as of the July version of the Draft Recommendations. WCI Partners should clarify whether all of the emissions from biodiesel or ethanol fuels will be exempted or just the biological component.
- Some stakeholders support excluding biomass and biofuels from cap-and-trade programs because other GHG reporting and regulatory programs accept these fuels as carbon neutral.

Stakeholders that support exemption of biomass and/or biofuels as carbon neutral	Comment Date	Stakeholders that Oppose exemption for biomass and/or biofuels as carbon neutral or express concern regarding an exemption	Comment Date
American Forest & Paper Association	8/08	Climate Solutions	8/08
Boise, Inc.	8/08	Puget Sound Energy	8/08
Industrial Consumer of Northwest Utilities	8/08	Sightline Institute	8/08
Northwest Paper & Pulp Association	8/08	Western Climate Advocates Network	8/08
PacifiCorp	8/08	Western States Petroleum Association	8/08
Smurfit-Stone	8/08		
Weyerhaeuser	8/08		

Response:

Carbon dioxide emissions from biomass that is determined to be carbon neutral will not be included in the program. This is consistent with Washington state law.

See *WCI Design language* – Section 1.3: For biomass determined by each WCI jurisdiction to be carbon neutral, the carbon dioxide emissions from the combustion of that biomass are not included in the cap-and-trade program, except for purposes of reporting.

See also the *WCI Background Report* section 1.1.2 which discusses the WCI Partner recommendations on biomass and bio-fuels.

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Key Perspective G: Scope

Many stakeholders emphasize the importance of complementary measures, especially for the residential, commercial and transportation sectors. Others express concern that complementary measures do not provide the same level of certainty in emissions reductions from these sectors as coverage under the cap.

Themes:

- Complementary policies on energy efficiency and vehicle performance standards need further investigation.
- Complementary policies will reduce the demand for transportation fuels – vehicle miles traveled (VMT) reduction goals, increasing fuel efficiency, and increasing transit and vehicle occupancy are examples of important and complementary policies to address the transportation sector.

Stakeholders	Comment Date
Alcoa	3/08
Sightline Institute	8/08
Western Climate Advocates Network	8/08

Response:

The WCI jurisdictions recognize the critical role complementary policies play in making the cap-and-trade program work more efficiently. In addition, these types of policies can address emissions in sources that are below the threshold for inclusion in the program, or that are not proposed to be included in it. The design recognizes the role of complementary policies, noting that they will be necessary to meet the 2020 reduction goal.

For more information, see the 2008 report – *Growing Washington’s Economy in a Carbon Constrained World* available on-line in December 2008 at www.ecy.wa.gov/climatechange.

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Key Perspective H: Reporting

In general, there was substantial support for the WCI Partner jurisdictions' efforts to harmonize WCI reporting and future federal greenhouse gas reporting, and there was concern regarding the burdens of having to report differently to multiple programs. Stakeholders overwhelmingly support beginning reporting before cap-and-trade commences, in order to have accurately measured emissions as a basis for allocating allowances. Stakeholders were generally split on the topic of third-party verification.

Themes:

- Some stakeholders feel that the best way to ensure a stable and efficient market is to ensure that a cap-and-trade program uses accurate, transparent, and complete data.
- Third party verification remains important to assure accuracy and transparency and to create linkages with other trading programs.
- A larger group of stakeholders feel that third party verification is expensive and /or burdensome for those facilities or entities that may participate in cap-and-trade programs.

Stakeholders that support third party verification of GHG emissions reporting	Comment Date	Stakeholders that oppose or express hesitation about third party verification of GHG emissions reporting	Comment Date
Alcoa	8/08	American Forest & Paper Association	8/08
BP America, Inc.	8/08	Ash Grove Cement	8/08
City of Seattle	8/08	Florida Power & Light	6/08
Port of Seattle	4/08	Industrial Consumers of Northwest Utilities	8/08
Puget Sound Energy	4/08	Northwest Paper and Pulp Association	8/08
Western Climate Advocates Network	8/08	PacifiCorp	8/08
Western States Petroleum Association	6/08	Smurfit-Stone	8/08
		Tacoma PUD	8/08
		Western Power Trading Forum	unknown
		Williams	5/08
		Weyerhaeuser	8/08

Response:

Reporting will provide the foundation for the cap-and-trade program, and thus it is critical that the reporting be accurate. The market will demand no less. Therefore, the WCI states and provinces have recommended third party verification of reported emissions from entities and facilities that will be included under the cap.

WCI will release the *Essential Requirements of Mandatory Reporting* in January of 2008. This document serves as the preliminary guide that WCI states and provinces will use to address reporting methods and thresholds for all six GHGs.

For information on the Essential Requirements document, visit www.westernclimateinitiative.org.

For more information, see *WCI Background Report* section 1.14 on Reporting (pages 43-45) and the *Draft Essential Requirements of Reporting* for WCI. Or visit the Washington Department of Ecology website on GHG reporting at http://www.ecy.wa.gov/programs/air/globalwarm_RegHaze/GreenHouseGasreporting_rule.html

Key Perspective I: Legal Concerns

Four Washington stakeholders detail a number of legal concerns regarding the proposed WCI cap-and-trade program.

Themes:

- Stakeholders question whether WCI Partners have the legal authority to implement the proposed program and express concern about potential legal challenges.
- Others express concern that WCI Partners may not have authority to allow the trading of allowances across state lines and about the constitutionality of creating a regional organization to buy, sell, and trade allowances.

Stakeholders that commented and the date Ecology received the comment

Stakeholders	Comment Date
Avista	4/08 and 8/08
PacifiCorp	3/08 and 8/08
Pacific Northwest Generating Cooperative	8/08
Smurfit-Stone	8/08

Response:

The WCI jurisdictions are aware of legal issues that could be raised to challenge the program design including those raised by these stakeholders. The jurisdictions are working to ensure that they have all of the authority needed to implement the program as designed. In addition, the jurisdictions have designed the program to minimize legal risks and potential market disruptions associated with legal challenges while also meeting the GHG emissions reduction goal.

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Key Perspective J: Cost Containment Mechanisms

Some stakeholder groups support cost containment measures within the WCI system, while others oppose cost containment mechanisms as potential ways to “break the cap.”

Themes:

- A number of stakeholder groups support cost containment mechanisms such as an exit ramp, price ceiling or floor, price collars, or a price safety valve.
- Several stakeholder groups view off ramps or exit ramps as a potential loophole that could break the GHG emissions cap.

Stakeholders that support specific cost containment options	
Ash Grove Cement	Introduction of additional allowances and increased offset availability if prices exceed the caps
Avista	Allowance price cap, circuit breaker, allowance set asides for low hydro conditions, unlimited banking
Florida Power and Light	Price ceiling and floor, unlimited banking
Grant County PUD	Unlimited banking
Industrial Consumers of Northwest Utilities	Off ramps in fixed 2012-2020 allowance schedule
Nucor Steel Seattle	Recommends an exit-ramp and consideration of a safety valve
Northwest Paper and Pulp Association	Borrowing allowances for future compliance periods
PacifiCorp	Allowance price triggers, deferring interim targets, allowance/ offset banking, multiple compliance year averaging, and below average hydro year adjustments.
Pacific Gas and Electric	Price collar using a pre-specified ceiling price
Puget Sound Energy	Additional allowance allocation if price ceiling exceeded
Smurfit-Stone	Price safety valve mechanism

Stakeholders that oppose specific cost containment options	
Informal coalition of WA based faith, social justice, and environmental groups – (letter to Gov. Gregoire dated Friday, July 11)	Avoid off ramps

Response:

The program as designed contains many cost containment measures. First, cap-and-trade is itself a cost effective way to reduce GHG. In addition, the program allows for unlimited banking of emissions and a limited use of offsets. The program will also allow a limited amount of allowances from other cap-and-trade programs to be used for compliance purposes. The program includes a three-year compliance period, meaning that allowances will need to be turned in for emissions over the three-year time frame. This provided facilities and entities under the program with a great deal of flexibility to determine such things as when to buy allowances or when to schedule maintenance that could result in an increase in emissions.

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Key Perspective K: Market Manipulation

Some stakeholders express concerns that a proposed cap-and-trade program must fully consider how to prevent market manipulation.

Themes:

- A design for a cap-and-trade program must consider the potential for the manipulation of the allowance market.
- One stakeholder states that smaller auction percentages and smaller markets may not easily lend themselves to market manipulation (e.g. the Acid Rain Program uses a small auction of less than 3% of allowances). While other stakeholders support a larger market to reduce the chances of market manipulation and to lower the cost of allowances.
- Some stakeholders express concern that cap-and-trade programs may lead to market problems that are similar to the California electricity crisis in 2000 and 2001.

Stakeholders	Comment Date
Avista	8/08
Douglas PU	8/08
Pacific Northwest Generating Council	8/08
Public Power Council	8/08
Tacoma Power	8/08
Snohomish County PUD	4/08
Washington Public Utility Districts Association	8/08

Response:

Operating under a contract with the Washington Department of Ecology, ICF International was asked to examine the potential for manipulation of the cap-and-trade market and options for limiting this type of behavior. Their report concluded that:

- There is no evidence of market manipulation in existing cap-and-trade programs.
- Allowance markets bear no resemblance to electricity markets:
 - Carbon allowances will be much more broadly owned, making it difficult for a handful of bad actors to create a shortage.
 - Carbon allowance can be banked unlike electricity which cannot be stored.
 - There are no “critical” times for carbon allowances – there is a three year compliance period that allows for ample time to acquire the necessary allowances. Electricity demand on the other hand must be met instantly to maintain system reliability.

ICF was also asked to update the report given the recent financial crisis on Wall Street to see what might be learned from the situation as WCI continues to address market oversight and operation in 2009.

To see the ICF report on *Limiting Market Manipulation*, visit http://www.ecy.wa.gov/climatechange/2008CTdocs/10102008_LimitingMarketManipulation.pdf