

MEETING NOTICE

**Governor's Task Force on Global Warming
Carbon Tax / Cap and Trade Work Group
Date: Tuesday, July 31, 2007, 8 a.m. to 11:00 a.m.
Location: Pyle Center, UW-Madison Campus
702 Langdon St., Madison, WI
Room 213 (2nd Floor)**

(Parking is available at public ramp – near the intersection of Lake and State St.)

AGENDA

- 1) Welcome / Housekeeping announcements
- 2) Continued brainstorming on additional policies regarding carbon tax/cap and trade
- 3) Review and suggest additions to rough draft list from Thursday, July 26 meeting
- 4) Drill down further into carbon policy characteristics for in-depth analysis. Begin to explore different characteristic combinations for a given policy to focus our analysis.
Example: policy characteristics may drive us to analyze more than one cap & trade option for our state.
- 5) Discussion of potential presentations and acquiring other outside resources
- 6) Public Comment
- 7) Next steps
- 8) Adjourn

This meeting is open to the public. If you have any questions or need special accommodations, please contact Lisa Stefanik at the Public Service Commission of Wisconsin at 608-266-1125 or lisa.stefanik@psc.state.wi.us.

Carbon Tax / Cap & Trade Work Group Meeting
Thursday, July 26, 2007 – Updated July 31, 2007

Our group reviewed the list of policy options for carbon tax / cap & trade created by WRI. The groups asked to WRI to come in to give more information on a variety of Carbon issues, such as how carbon policies impact other sectors. WRI will call in to our next meeting.

In our initial brainstorming, our group decided to create a list of things we need to address to get at issues surrounding cap & trade and other carbon policies. Before doing that however, our group had a few additional ideas that were not necessarily on the overall policy matrix. They included:

- Wisconsin could join REGI instead of creating our own state carbon system.
 - How does that reconcile with other federal proposals?
- Wisconsin could create its own state alternative.
 - Cost and learning curve will be major factors in our own state program.
 - A registry can create a foundation for a trading program. Wisconsin is already a member of the Climate Registry.

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Identifying issues that will surround:

Evaluate potential for design of a cross-sector carbon mitigation offset program for new and or/existing emissions sources.

Characteristics of an offset program (challenges we'll need to consider).

- 1) Source & activity type. When dealing with Cap & Trade, point of regulation is also an issue.
- 2) Scope of offset – geographic (statewide or multi-jurisdictional), CO2 or CO2 equivalent, ratios, sectors.
- 3) Early adopter program
- 4) Accounting
 - Units of measure
 - Verification (no double counting)
 - Certification
 - Monitoring (including creating a good baseline)
 - Transaction costs
 - Permanency (Is the offset short term or long term?)
 - Leakage
- 5) Costs
 - Administrative
 - Economic

- Transaction
- 6) Compatibility (Assess who else has program). Comparability of program also an issue. ex: in a cap & trade sense, the US is not allowed to trade in Kyoto affected programs because there's not a participant.
 - 7) Legal issues – Penalties, liabilities, etc
 - 8) Registry – what are the offset & tracking options?
 - 9) Transparency.
 - 10) Clean development mechanism (case law approach)
 - 11) Performance phase standard – Wisconsin sets a standard to qualify for emissions reductions.
 - 12) Additionality

Characteristics of Cap & Trade program (challenges we'll need to consider).

- 1) Source & activity type. When dealing with Cap & Trade, point of regulation is also an issue.
- 2) Scope of market
 - Geographic (statewide or multi-jurisdictional). Does WI stand alone or participate regionally?
 - CO2 or CO2 equivalent
 - Ratios
 - Sectors (might we go by company or smaller market contributor?)
- 3) Early adopter program / banking of credits.
- 4) Accounting
 - What are your units of measure?
 - Verification (no double counting)
 - Certification
 - Monitoring (create baseline)
 - Transaction costs.
- 5) Costs
 - Administrative
 - Economic
 - Transaction.
- 6) Compatibility and comparability of program.
 - Cross sector trading – In the power sector, it's likely much more certain. In transportation for example, there may be different issues. This could be an issue of comparability.
- 7) Legal issues – penalties, liabilities, etc
- 8) Registry – what are the offset & tracking options.
- 9) Transparency.
- 10) How do you set the cap?
 - include safety valve, price, and borrowing.

- Timetables
- Cap stringency

11) Allocation

- by auction
- by historical emissions.
- Set asides.
- Time period (permanent? Shorter time frame?)
- Frequency / life of credits.
- New sources and retirements.

12) Leakage – imports, exports.

13) Baseline

14) Recognition – voluntarily retirements – how do you recognize the value of that?

Additionally, consider how state buildings, etc lead by important example.

15) Use of offsets – Offsets under this policy are opt-in, not mandatory. Offsets may mitigate allowance prices.

16) Revenue

- How is revenue generated and used?
 - Auctioning allowances up front
 - Safety Valve
 - Non-compliance fines
- How do you generate revenue for initial program start up?

Characteristics of Carbon Tax:

- 1) Point of application – Fuel, emissions.
- 2) Tax revenue (the money is shifting from what to what?) Where does the money go?
- 3) Purpose of Tax -- what is the intent? To create revenue or incentivize less use? What's the outcome? Do we measure GHG reductions? Public benefit?
- 4) Sectors – hybrid or Cap and Trade.
Volatility of Carbon Cap and Trade market can be tempered by a carbon tax. A hybrid program of a carbon tax and a cap & trade program can work well, and the two options are not mutually exclusive.
- 5) Costs
 - Administrative
 - Economic
- 6) Cost Containment
 - Safety valve banking
 - Borrowing
 - Maintain integrity of cap, but allow flexibility in cap throughout time. Covers borrowing allowances.

- RGGI option for cost containment – compliance requirement gets extended by 1 year. In theory, it brings down the costs of allowances

- 7) Setting the amount & level of tax. Consider timing of rollout & implementation. Evaluation and adjustment important here, too.
- 8) Jurisdiction / compatibility (geographic).
- 9) Public & political acceptance and buy in.
- 10) Equity & Incidence
- 11) Administration / Monitoring / Enforcement – what’s happening to emissions, and is everyone really paying their taxes?

** Does DOR or DOA have any information about carbon tax analysis? Lisa to follow up to inquire.

Characteristics / analysis of *Increase DNR voluntary emissions reduction program – reduction registry.*

No stick, all carrot type of program.

Participating in other programs, like Chicago Climate Exchange, is similar to this concept.

- 1) Compatibility. How does this interact or overlay with other programs? ENERGY STAR, building incentives, etc.
- 2) Accounting – verification, certification, evaluation and monitoring
- 3) Geographic scope.
- 4) Effectiveness (strength of incentive).
- 5) Increase of experience & infrastructure created.
- 6) Costs – administrative, etc.
- 7) Time frame and future usability is important. We could get on the ground fast, but you need to be sure to create ‘bulletproof’ credits that are usable later.
- 8) Free ridership.
- 9) Consider importance of this volunteer program while public & political assessors “warm up” to a more costly program.

10) Interaction with Green Tier.

What is the “get” for Green Tier?

More compliance flexibility in return for additional reductions. Public recognition in being a ‘green tier’ company. Self-monitoring of violations and fixes.

11) Marketing key for a voluntary program.

12) Do you consider broader adoption of an existing voluntary program, or do you adopt something new?

Add the Climate Registry – build a WI program that really builds off the Climate Registry Program.

How would a voluntary program interact with 1605b (DOE Program)? Climate Leader and Climate Challenge? Consider transferability, etc.

Carbon tax schemes discussed – more complicated schemes are discussed for point of regulation – like perhaps a big box store that uses a lot pays a lot, but a household would pay much less. Individuals or businesses could reduce their payment by being near public transportation, even more for using public transportation, etc.

Carbon Tax / Cap & Trade Work Group
Tuesday, July 31, 2007

Continued brainstorming on additional policies re: Carbon Tax / Cap and Trade

The following additional policies, or policy elements, were offered for consideration by the group:

Retired offsets.

These could be sold under a Cap and Trade system, or they could be donated so they could be retired. This method could qualify for federal tax deductibility.

Clean energy portfolio standard.

- Such a policy might include energy efficiency, nuclear, renewables, offsets – whatever is related to clean energy.
- While this idea has generated a lot of interest in industry, among politicians, etc. a key challenge with this idea is that supporters of renewable energy, for example, want their own standard to encourage accountability.

Advancing technology.

What technologies are carbon neutral or non-GHG emitting, and can analysis be done to analyze how they might work sector by sector? By another name, this is a market creation exercise.

Open trading program.

- This could be an alternative to a sole offset program. It would require offset, but it would allow for a trading scheme, in tradable units, instead of offsetting x tons for x tons.
- Allows other sources to opt-in. There wouldn't have a set cap, as you have a performance standard for each source to allow trading.

Characteristics for a Performance Standard:

1) Scope

- geographic, state-wide, multi-jurisdictional.
- Which sectors are involved?
- Threshold size
- Which gases – is it just CO₂ or does it include others (such as methane)?

2) Measurement Metric

- Technology / process
- Emissions intensity

3) Stringency or goal – what is the standard?

4) Accounting

5) Early adopters – do you get incentives for starting early?

6) Ability to trade credits

7) Additional characteristics from the other policy ideas we've had apply to this policy – administrative, monitoring, etc.

Review of brainstorming activity from 7/26/07. Do we have additional characteristics to add?

**** Note: The document from 7/26/07 has been updated with track changes to reflect additions on 7/31/07.**

Further Analysis of Carbon Cap and Trade Policy Characteristics for In-Depth Analysis:

- Level of entity that gets pulled into mandatory program
- Allocation – allowance and auctions.
- A state program on its own gets you somewhere, but perhaps not as stringent as a national program.
- Realize that Cap and Trade helps us with long-term GHG reductions, achievable in 2020, or 2050.
- Cap & Trade may not be realistic for near-term solutions. Wisconsin specific Cap & Trade programs may be not realistic, either. We should look beyond the state.
- Options may differ for a national vs. regional program and different commitment periods.

Proposal possibilities for Cap & Trade policy options

- One should include a multi-state (WI, IA, MN, and IL) proposal, because these states are engaged in this sort of work.
 - More states should be engaged to bring in more diversity. Consider MISO membership.
 - Keep in mind when navigating regional relationships that Wisconsin has the largest coal generation of many of its neighbors.
 - If we consider sequestration as part of Cap & Trade, IL good & necessary partner due to geographic fit for carbon sequestration.
- We should have one policy that encompasses offsets, and one that carries mandatory caps, in part so we can bring in other sectors above the power sector.
- We should probably have a Wisconsin-only scenario.
 - We could be the low-cost state.
 - There could be benefits of doing a state only program and it would be likely easier to achieve than something regional or national.
 - This will not likely be the case, but we need to run that analysis to know and decide whether or not to take it off the table.
 - Another way to think about it is do a Wisconsin 'base case' so we can assess how it improves (or not)
- Another proposal idea would include setting a cap – state and regionally. And as a first step alternative, employ an offset requirement for all new units of generation.

- Existing units may be included, as well.
- Consider offsetting to a performance standard instead of offsetting to a cap.

Carbon Tax policy characteristics to be discussed at a future meeting. Item tabled at this meeting due to time constraints.

Presentations and outside resources for our next meetings:

- LATCO Registry (Climate Registry).
- WRI Emissions inventory? Interest in knowing limitations, how emissions change from sector to sector?
- Could we have Paul Meier in to talk about UW Support?

Items for follow up

- Send group WRI Emissions Inventory
- Group is asked to hold afternoon of August 15 (Wednesday) for possible meeting change do to conflict on 8/14 with Technical Advisory Group, which is meeting from 9 a.m. to 3 p.m.
 - Decide date, inform group, find meeting location and book speakers for next meeting.
- Group would like to know what components are going in the Tech Advisory's Base Case. Can Caroline give presentation at next meeting? (Currently conflicts with tech advisory group).
- Can we find other national studies that might be useful to tell us how other C&T programs work?
- What eventual model runs are we going to want WRI to do? What is possible?
 - State only C&T
 - Regional
 - Offset to a performance standard.
 - Transition from WI voluntary registry to the Climate Registry (Marketing & raising awareness of the registry is a key issue).