

Allowance Allocation Under the Cross-State Air Pollution Rule



World
Resources
Institute

Nicholas Bianco, Senior Associate



Franz T. Litz, Executive Director

Overview

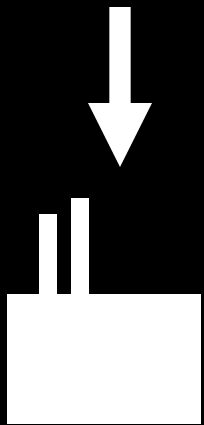
- Allocation is the process of distributing allowances
- Does not affect environmental performance, which is determined by the cap
- Does impact economic performance

Possible Allocation Goals

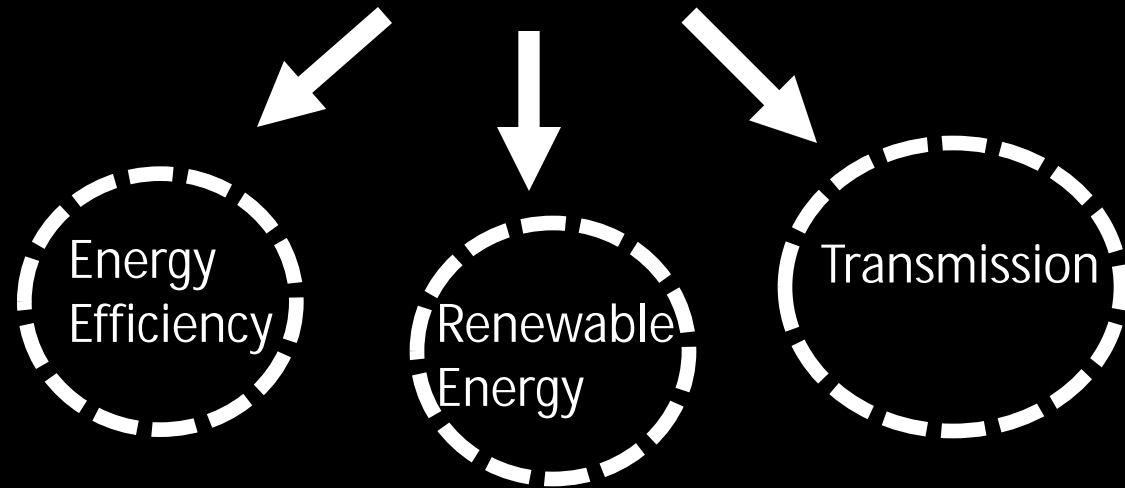
- Minimize cost to compliance entities
- Minimize rate impacts
- Smooth adoption of federal regulations
- Further strategic energy interests
 - Energy efficiency
 - Renewable energy
 - Transmission expansion

How to Allocate?

Allocate directly to compliance entities



Allocate to set-asides



Allocation to Compliance Entities

Emissions

- + Allowances go to units that need them for compliance
- Penalize units for emissions reductions

Input

- + Allowances go to least efficient units, which generally will need more for compliance
- + Does not penalize cleaner generation technologies (e.g., gas)
- Penalize units for emissions reductions

Output

- + Rewards efficiency improvements
- Inefficient units may receive fewer allowances than needed

Allocation to Compliance Entities

Historical

- + Reward / encourage shut down of older units
- Lock in revenue stream for old units
- Increased costs for new generation

Updating

- + Lower barriers for new units
- + Allocations in line with current production levels
- Rewards electricity production, which in some circumstances might reduce rates and therefore reduce incentives for end use energy efficiency

Allocation to Compliance Entities

Non-Rate Regulated Entities (i.e., merchant power generators):

- Allowances have value that can be captured through sale on the secondary market
- Non-rate regulated entities will factor that value into electricity pricing whether those allowances are freely allocated or purchased at auction
- These entities account for about 11% of generation in MN

Allocation to Other Funds (Set-asides)

Can help achieve variety of goals

- Energy efficiency
- Renewable Energy
- Transmission
- Retirement planning
 - Units shutting down early could apply for extra credits
 - Reward of allowances could be tied to investment in new generation resources
 - Avoids challenges created through historical allocations

Allocation to Other Funds (Set-asides)

- Mechanisms:
 - Sell at auction and use revenue OR
 - Entities apply for allowances using established protocols
 - Entities realize allowance value by selling them on the secondary market

MN CAIR Discussion Draft (annual NOx)

Existing Units

- 80% of budget first 6 years, then 82% of budget
- Updating, heat input-based, with fuel-specific adjustments

New Units

- 5% of budget first 6 years, then 3% of budget
- Based on actual emissions in previous year

Renewable Energy Set-aside

- 15% of budget
- Based on production (MWh) and technology type (wind, solar, hydro)

Midwestern Accord Advisory Committee Recommendations

Allocation Goals

- Accelerating transformational investment in technologies and infrastructure
- Cost mitigation for end-users, particularly low-income consumers and energy intensive industry
- Climate change adaptation

Allocation mechanics

- Merchant Generators – Auction 100% of merchant generator allowances unless entity demonstrates inability to pass through costs.
- Remaining Generation – Initially 10% of electric sector allowances auctioned, remaining allowances sold to covered entities for a “modest fee.” Shift to a full auction over time.

Discussion



World
Resources
Institute

Nicholas Bianco, Senior Associate



Franz T. Litz, Executive Director