



## Energy Supply Technical Work Group

### Summary List of Recommended Priority Policy Options for Analysis

Draft Option #	Draft Policy Option Name	Straw Proposal Volunteers
ES-X <sup>1</sup>	GHG Cap-and-Trade	
ES-1	Generation Performance Standards or Mitigation Requirements	
ES-2	Improve the GHG Profile of Biofuels and Fossil Fuels (e.g., Low Carbon Fuel Standard, biofuel production)	
ES-3	Efficiency Improvements, Repowering and other Upgrades to Existing Plants	
ES-4	Transmission System Upgrading, incl. reducing transmission and distribution line loss.	
ES-5	Renewable and/or Environmental Portfolio Standard	
ES-6	Nuclear Power Support and Incentives	
ES-7	Advanced fossil fuel technology incentives, support, or requirements (IGCC, CCS, etc.)	
ES-8	CCSR enabling policies (administration, regulation, liability, incentives) and incentives	
ES-9	Large-scale, supply-oriented Combined Heat and Power (CHP) & Geothermal Incentives and/or Barrier Removal	
ES-10	Voluntary GHG targets	
ES-11	Carbon (GHG) tax	
ES-12	Distributed Renewable Energy Incentives and/or Barrier Removal	

<sup>1</sup> This option (report on cap-and-trade) is required by legislative statute.

<b>Draft Option #</b>	<b>Draft Policy Option Name</b>	<b>Straw Proposal Volunteers</b>
ES-13	Technology-based approaches, including research & development, fuel cells, energy storage, distributed renewable technologies, etc	

## Draft Policy Option Template

### ES-X CAP-AND-TRADE PROGRAM

#### Policy Description

[CCS drafts for TWG review and revision: e.g.

“... A cap and trade system is a market mechanism by which GHG emissions are limited or capped at a specified level, and those participating in the system are required to hold permits for each unit of emissions. Through trading, participants with lower costs of compliance can choose to over-comply and sell their additional reductions to participants for whom compliance costs are higher. In this fashion, overall costs of compliance are lower than they would otherwise be.

The initial allocation of the allowances is an important policy decision. They can be auctioned (with the proceeds used to benefit consumers who will pay higher costs) or allocated to existing sources, or some combination of the two. Participants can range from a small group within a single sector to the entire economy. As with carbon taxes, the compliance obligation can be imposed “upstream” (at the fuel extraction or import level) or “downstream” at points of fuel consumption.

Among the important considerations with respect to a cap and trade program are: the geographic coverage of the cap (which states), the sources and sectors to which it would apply; the baselines for these sources and sectors.; the level and timing of the cap; how allowances would be distributed (e.g., whether load-based or generation-based, how new market entrants are accommodated, how leakage is addressed, etc.); and what if any offsets would be allowed. Other issues to consider include which GHGs are covered; whether there is linkage to other trading programs; banking and borrowing; early reduction credit; what if any incentive opportunities may be included; use of any revenue accrued from permit auctions; and provisions for encouraging energy efficiency.

The principal example of a GHG cap-and-trade system in the US today is the Northeast States’ Regional Greenhouse Gas Initiative: <http://www.rggi.org/> A group of western states and Canadian provinces are also in the initial stages of developing a multi-sector cap-and-trade program through the Western Climate Initiative, [www.westernclimateinitiative.com](http://www.westernclimateinitiative.com) ....]

#### Policy Design

**Goals:** [CCS drafts based on inputs from volunteers for straw proposals and then moves proposed text to the full TWG for review/revision, then on to the MCCAG at the next meeting: e.g. “...General goals for a cap-and-trade program in Minnesota include.... The scope of the program is... The reductions the program should achieve are ....”]

- **Timing:** Startup in 20xx and ramp up to higher levels in 20xx and 20xx, consistent with goals.

- **Parties Involved:** The states, sources and entities covered by the program are ...
- **Other:** As needed, identify other factors/parties that would need to be engaged for successful implementation of the policy.

### Implementation Mechanisms

TBD – [CCS drafts based on TWG inputs; this can be developed as TWG process unfolds, and can start early or late as appropriate; the level of detail can vary on TWG approval including issues such as : TWG recommendations on a) policy mechanisms, b) coverage of sources or upstream suppliers of fuel or electricity; c) mode of allocations (e.g., past emissions, past output, or auction); d) role of offsets, etc. ...]

### Related Policies/Programs in Place

[CCS to fill in any existing or planned programs or policies identified earlier in the process; none that we have identified...]

### Types(s) of GHG Reductions

[CCS to lists the types GHGs reduced...]

### Estimated GHG Reductions and Net Costs or Cost Savings

TBD

- **Data Sources:** [TBD by CCS on TWG approval]
- **Quantification Methods:** [e.g. Full life-cycle analysis with supply/demand equilibrium adjustments on TWG approval]
- **Key Assumptions:** [TBD, as needed on TWG approval]

### Key Uncertainties

TBD – [as needed and approved by the TWGs]

### Additional Benefits and Costs

TBD – [as needed and approved by the TWGs]

### Feasibility Issues

TBD – [as needed and approved by the TWGs]

### Status of Group Approval

Pending – [until MCCAG moves to final agreement at meeting #5 or #6]

### Level of Group Support

TBD – [blank until MCCAG meeting #5]

### Barriers to Consensus

TBD – [blank until final vote by the MCCAG]

