

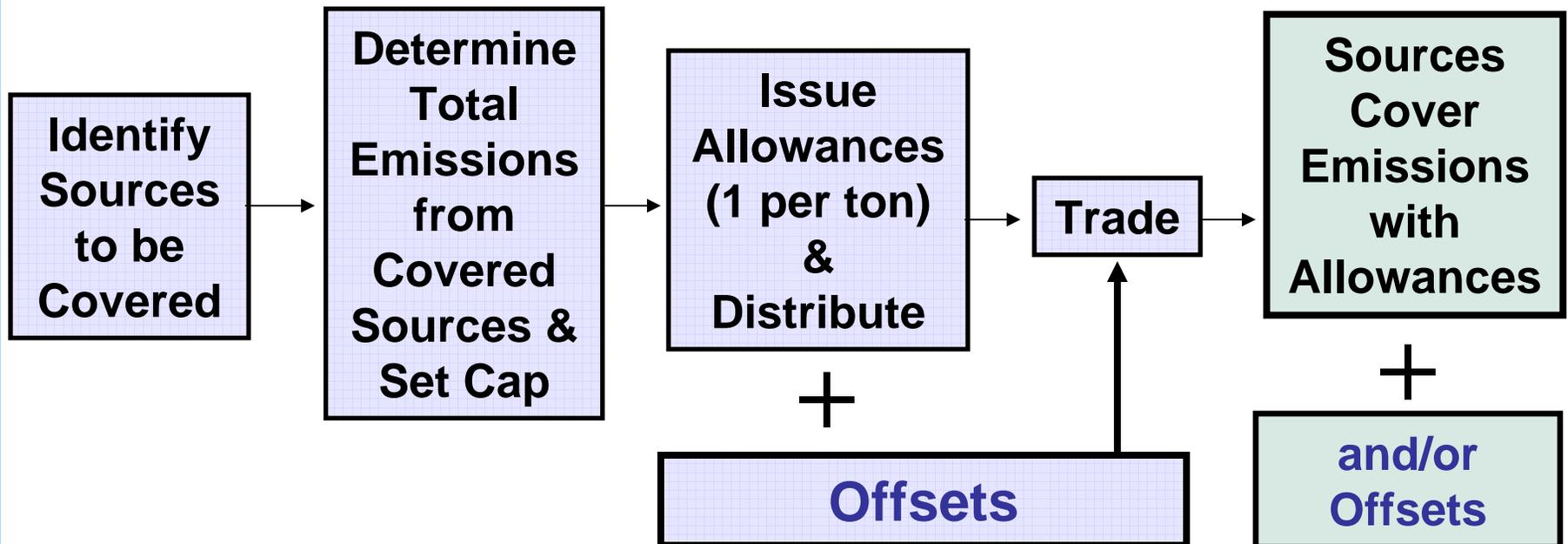
Cap and Trade Basics

SCR 28 Workgroup

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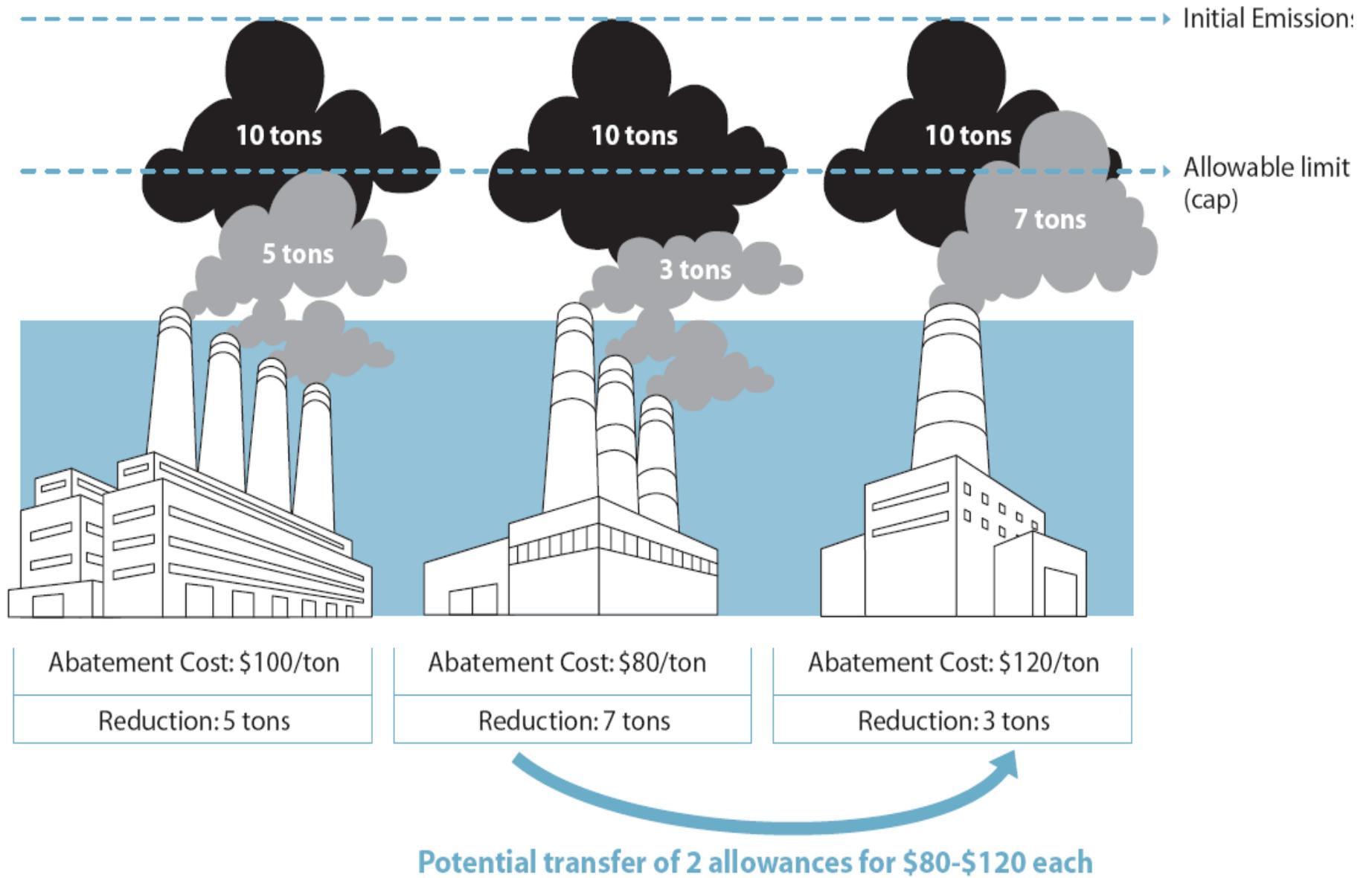
Cap-and-Trade



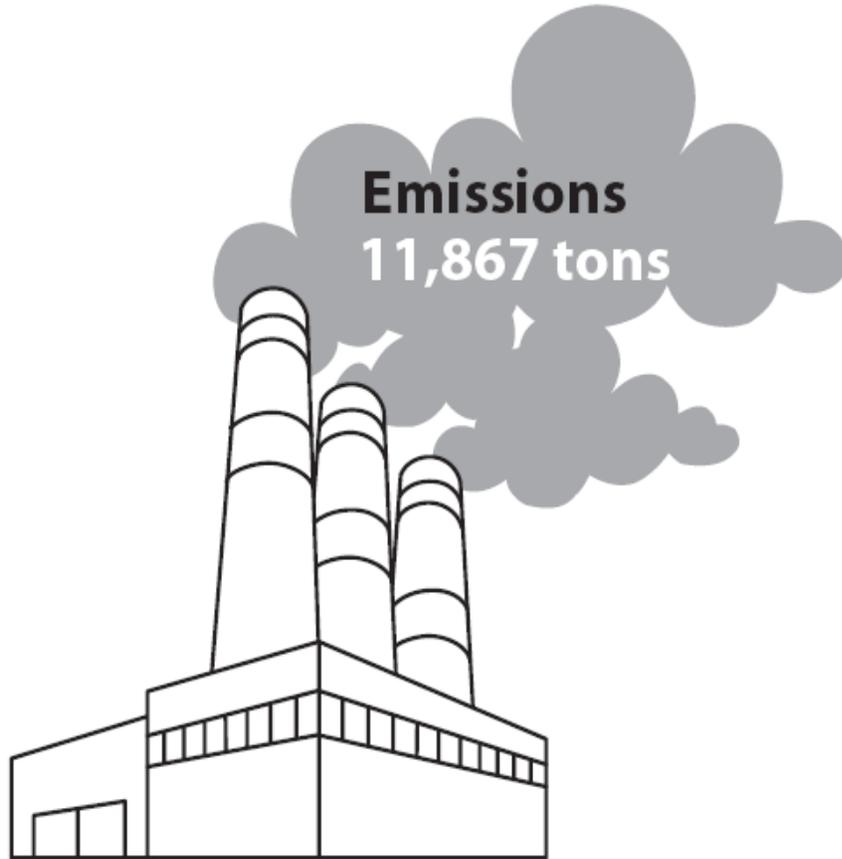
How a Cap and Trade Program Works

- 1. The regulating authority sets a cap on total mass emissions for a group of sources for a fixed compliance period (e.g., 1 year).
- 2. The regulating authority divides the cap into allowances, each representing an authorization to emit a specific quantity of pollutant (e.g., 1 ton of CO₂).
- 3. The regulating authority distributes allowances.
- 4. For the compliance period, each source measures and reports all of its emissions.
- 5. At the end of the compliance period, each source must surrender allowances to cover the quantity of the pollutant it emitted. If a source does not hold sufficient allowances to cover its emissions, the regulating authority imposes penalties.

Figure 1. Cost Minimization With Trading



Allowances



Beginning of year	15,812
Net Allowance (Bought and Sold)	-3,201
Total Allowance Available for Compliance	12,611
Deductions for Emissions	-11,867
Allowances Remaining (Source in Compliance)	744

Guiding Principles

- **Simplicity**

- • Applicability thresholds (determining which facilities are affected)
- • Allocation formulas
- • Trading rules and/or restrictions
- • Measurement options and rules
- • Reporting requirements
- • Penalty assessment

Guiding Principles

- **Accountability**
- **Transparency**
- **Predictability and Consistency**