

## CARBON MARKETS

Carbon markets are an essential component of cap-and-trade programs that aim to reduce greenhouse gas emissions using a market-based approach.

- ▶ The U.S. House of Representatives passed a cap-and-trade program in June as part of the Markey-Waxman bill, The American Clean Energy & Security Act of 2009.
- ▶ The Senate is considering a cap-and-trade program in the Kerry-Boxer bill, The Clean Energy Jobs and American Power Act of 2009.
- ▶ The Regional Greenhouse Gas Initiative—RGGI—established the nation's first working cap-and-trade program among 10 Northeastern states that covers the electricity generation sector.
- ▶ The Western Climate Initiative designed a cap-and-trade program that will take a multi-sector approach and cover emissions from power plants, industry and transportation. The program is set to begin in 2012.
- ▶ The Midwest Climate Accord is also establishing a multi-sector greenhouse gas cap-and-trade program.



Even if the U.S. does not commit to a cap-and-trade program, voluntary markets and regional markets will continue to expand.

- ▶ RGGI is the third largest carbon market in the world. Its auctions have raised \$494 million to date. That money is then funneled back to the states on a pro-rated basis.<sup>1</sup>
- ▶ Within RGGI, carbon is now trading around \$2 per ton. If the U.S. passes federal cap-and-trade legislation, the price of carbon is expected to rise to \$15 per ton.<sup>2</sup>

### What do carbon markets mean for states?

- ▶ Funds from carbon markets can be funneled back to consumers and industry to help offset the expected higher costs of electricity.
- ▶ For example, during the last RGGI auction, money flowed back to the states to help finance a range of energy efficiency programs including retrofits of low-income apartment buildings and incentives for purchasing energy efficient appliances.
- ▶ Under a federal cap-and-trade program, the average household electricity bill is anticipated to rise by \$175 a year.<sup>3</sup>
- ▶ The more states that develop cap-and-trade programs, or join existing ones, the more likely it is other states and the federal government will follow.

However, for a carbon market to operate successfully, it must achieve the following:

- ▶ Proper regulation and oversight by either the Federal Energy Regulatory Commission or the Commodity Futures Trading Commission.
- ▶ Be transparent, and limit the participation of individual stakeholders to prevent manipulation.<sup>4</sup>

#### References

<sup>1</sup> Regional Greenhouse Gas Initiative, Auction Results. Accessed from <http://www.rggi.org/co2-auctions/results> on February 5, 2010.

<sup>2</sup> Wheeler, Timothy, "Cap and Trade Emission Reductions Programs Catch On", The Baltimore Sun, December 16, 2009. Accessed from: <http://www.baltimoresun.com/features/green/bal-md.gr.captrade16dec16,0,1721439.story> on February 5, 2010.

<sup>3</sup> Ibid.

<sup>4</sup> Stevenson, Andy, "Regulating Trading in the Carbon Market", Natural Resources Defense Council, January 2009. Accessed from: <http://www.nrdc.org/globalWarming/cap2.0/files/regulating.pdf> on February 5, 2010.

