

## **Further Refinement of Priorities for Cap and Trade Allowance Value Distribution: Renewable Electricity and Advanced Coal with Carbon Capture and Storage**

### **Background**

The Allowances Subgroup of the Midwestern Greenhouse Gas Reduction Accord (MGGRA) Advisory Group must recommend a method for apportioning emissions allowances to jurisdictions participating in the cap-and-trade system, as well as distributing allowances within or across each state and province. The Subgroup has already recommended that, regardless of the distribution formula, allowance value should be put toward climate-related purposes and into two categories: (1) accelerating transformational investment and/or (2) mitigating transitional harm. The first category will use allowance value to drive commercial deployment of low-carbon technologies, with a special focus on those sectors and resources being addressed by the MGA Platform advisory groups in energy efficiency; bioproducts and transportation; and renewable electricity and advanced coal with carbon capture and storage.

### **REACCS Options for Allowance Value Distribution**

In an August conference call involving participants and staff of the MGA REACCS Advisory Group, a list of options for use of cap and trade allowance value was identified. Below is a distilled version of the list developed through the call:

- Demonstration and deployment of electricity storage technologies that can support variable renewable electricity resources onto the grid at much higher levels of integration (e.g. above 20 percent).
- Demonstration and deployment of new technologies for biomass to power (e.g. biomass gasification, biomass-coal co-gasification, etc.).
- Establishment of a stable commercial CCS funding pool through allowances that would award project developers funds on a competitive basis. Projects in different locations with different feedstocks have different needs, so fund eligibility should be flexible and enable support for CO2 pipelines, gasification/combustion technologies, capture technologies or other key components of a project for which private sector financing is unavailable or insufficient.

### **Further Input Sought**

Drawing on the list above, the Subgroup would appreciate additional input on:

- a) Further prioritization of REACCS options above that could most benefit from receiving some portion of the allowance value created through a cap-and-trade program;
- b) Particular policy mechanisms towards which this value could most effectively be directed; and
- c) Estimate of how much allowance value might be required to adequately support these policy mechanisms and goals.

### **Potential Range of Allowance Values to Consider**

To inform the Advisory Group's discussion and input, the attached potential allowance value ranges incorporate different assumptions about the scope of a cap and trade program, price per ton of CO2 equivalent and percentages of allowances to be auctioned. These are not currently recommendations of the MGGRA Advisory Group and are merely intended to be illustrative.

<b>Potential Allowance Value Ranges</b> <b>(inc. IL, IA, KS, MB, MI, MN, WI)</b>	<b>Total Emissions</b> <b>in tons COE</b>	<b>\$10 per ton</b> <b>10%</b> <b>auction</b> <b>\$ millions</b>	<b>\$10 per ton</b> <b>25%</b> <b>auction</b> <b>\$ billions</b>	<b>\$30 per ton</b> <b>10%</b> <b>auction</b> <b>\$ billions</b>	<b>\$30 per ton</b> <b>25%</b> <b>auction</b> <b>\$ billions</b>
<b>Scope I: Electricity, Large Industrials under Cap</b>	<b>433,800,000</b>	<b>\$ 433.80</b>	<b>\$ 1.30</b>	<b>\$ 1.30</b>	<b>\$ 3.25</b>
<b>Scope II: plus Transportation, Residential and Commercial</b>	<b>833,400,000</b>	<b>\$ 833.30</b>	<b>\$ 2.08</b>	<b>\$ 2.50</b>	<b>\$ 6.25</b>