



Centralized Banking Mechanisms in Current US Policy Proposals

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The Need for A Carbon Fed

- Cost Containment
- Market Oversight
- Unbiased Analysis

Guiding Principles of the CMEB

- Maintain environmental integrity
- Avoid unexpectedly high cost to the economy
- Focus on sustained price departures rather than short term volatility
- Maximize the use of market-based mechanisms
- Provide effective incentives for long-term investments

Structure of the CMEB

- Modeled after the Federal Reserve
- 7 Members, appointed by the President, confirmed by the Senate
- 14 year full-time terms
- Geographic diversity
- Professional diversity
- Political diversity

Duties of the CMEB

- Collecting information and analyzing it
- Reporting results of the analysis to Congress and the public
- Responding to threats of significant harm to the economy

Collecting

- At first, this is the primary responsibility of the board, along with reporting
- In later years, still necessary for implementing cost-relief measures
- Information would include:
 - Allowance availability
 - Pricing
 - Macro- and micro- economic effects
 - Achievement of environmental objectives

Reporting

- Quarterly public reporting to the President and Congress
- Prepared independently, taking in to consideration views of relevant federal agencies
- Reports would include:
 - Status of national market
 - National and regional economic effects
 - Response to the market by industrial sector and consumers
 - Corrective measures taken to relieve excess costs
 - Adjustments necessary to meet emissions cap in future years.

Responding

- First two years: limited to collecting and reporting
- After two years: Has authority to implement market-based cost relief measures.
- Market-based measures could include:
 - Adjusting limits on the use of offsets
 - Adjusting limits on the ability to bank and borrow
 - In an extreme case, auction new allowances

Responding

- Relief measures only to employed:
 - Incrementally
 - To extent necessary to relieve significant economic harm
 - Only for the duration of the current calendar year
 - Accompanied by a plan for repayment of allowances
- Board may not:
 - Engage in investigative or enforcement activities
 - Interfere with the allowance allocation process
 - Alter the overall emissions cap

Criticism

- Less certainty for business planning than a “safety valve” approach
- Board could be too powerful and could arbitrarily influence the market
- Borrowing is not economically feasible and could imperil the cap in early years

Support

- More flexible and dynamic than other cost containment proposals
- Provided for a more true, fluid market
- Able to react to more than just an elevated allowance price
- Allowed for a greater chance of meeting environmental goals

Emission Allowance Market Transparency Act

- Introduced by Senator Feinstein
- Motivated by Enron and rolling blackouts in California
- One of a series of proposals from Senator Feinstein relating to any new or lightly regulated market

Emission Allowance Market Transparency Act

- Directed EPA to oversee the carbon market
- Established what would be considered unlawful conduct
- Allowed EPA to limit transactions if it makes a finding of excessive speculation within the market

Lieberman–Warner Climate Security Act Provisions

- Established Carbon Market Working Group
 - EPA Administrator
 - Chairman of the Federal Energy Regulatory Commission
 - Chairman of the Commodities Futures Trading Commission
 - Chairman of the Securities and Exchange Commission
 - Secretary of the Treasury Department.
- The working group would establish the regulatory framework for the market and recommend necessary regulations that ensure enforcement of core market oversight principles.
- The President would then be charged with implementing the recommendations

For more information

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