

Cap-and-Trade Stakeholder Meeting

Program Design Options:
Allowance Distribution
October 24, 2005

Allowance Distribution

- **Method by which allowances are distributed:**
 - Allowance auction
 - Allowance allocation
 - Recent “baseline” emissions
 - Recent level of output
- **Frequency of distribution:**
 - One time
 - Periodically

Allowance Auction

- **Requires entities under the cap to purchase allowances.**
- **Generates revenue:**
 - **Support and invest in emission reduction activities**
 - **Support research and development of emission reduction technologies**
 - **Direct to affected parties**
- **The State “Captures” the value of the allowances.**
- **Treats existing and new sources the same.**

Allowance Allocation

- **Allocate to entities under the cap.**
- **Recent “baseline” emissions:**
 - **More allowances go to entities with the highest recent emissions.**
 - **Need a mechanism to protect early action.**
- **Recent level of output:**
 - **“Average” emissions per unit of output.**
 - **More allowances go to the entities with the highest recent output.**
 - **Benefits entities with low emissions intensity.**
- **Possible accommodation for new sources.**

Allowance Distribution

- **Frequency:**
 - One time (e.g., Acid Rain Program)
 - **Periodic:**
 - Annually
 - Multiple year periods (e.g., five years)
- **Compliance period:**
 - Annual
 - Multiple year periods