Section 1: Design Recommendations for the WCI Regional Cap-and-Trade Program

The Western Climate Initiative (WCI) jurisdictions are recommending a design for a broad cap-and-trade program as part of a comprehensive regional effort to reduce emissions of global warming pollution to achieve the WCI 2020 regional goal. The recommended design will provide opportunities to obtain low-cost emission reductions through emission trading, allowance banking, and inclusion of an offsets component. The design is also intended to mitigate economic impacts, including impacts on consumers, income, and employment. The design balances all principles adopted by the WCI Partner jurisdictions to maximize total benefits throughout the region, including reducing air pollutants, diversifying energy sources, and advancing economic, environmental, and public health objectives, while also avoiding localized or disproportionate environmental or economic impacts. Finally, the WCI Partner jurisdictions have designed a program that can stand alone, provide a model for, be integrated into, or be implemented in conjunction with programs that might ultimately emerge from the federal governments of the United States and Canada.

1. Scope[1]

1.1. Greenhouse gases (GHGs) covered: Carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride.

1.2. Emissions covered:

1.2.1. Electricity generation, including emissions from electricity generated outside the WCI jurisdictions (or generated by a federal entity or on tribal lands) that is delivered into a WCI Partner jurisdiction for consumption in that WCI Partner jurisdiction;

1.2.2. Combustion at industrial and commercial facilities;

1.2.3. Industrial process emission sources[2], including oil and gas process emissions;

1.2.4. Residential, commercial, and industrial fuel combustion at facilities with emissions below the WCI thresholds3 (as described below in the Point of Regulation section, these emissions will be covered upstream). Coverage of these emissions will begin at the start of the second compliance period;

[1] The *scope* defines the GHG emissions that are included in the cap-and-trade program, including the emission sources and GHG emissions that fall under the cap.

[2] As used here, process emissions include emissions from chemical, biological, and other non-combustion processes. These emissions may be deliberate (e.g., vented), fugitive (e.g., leaked), or accidental.

[3] *Thresholds* are emission levels that determine when a particular entity or facility will have a compliance obligation under the cap-and-trade program.

1.2.5. Transportation fuel combustion (as described below in the Point of Regulation section, these emissions will be covered upstream.) Coverage of these emissions will begin at the start of the second compliance period.

1.2.6. The WCI Partner jurisdictions recommend covering combustion from transportation, residential, commercial, and industrial (including electricity) fuel sources with the expectation that the individual WCI Partner jurisdictions will:

- Mitigate the economic impact on consumers;
- Implement other policies that will reduce GHG emissions from the transportation sector and reduce demand for transportation fuels (such as vehicle standards, smart growth, low carbon fuel standards, transit options, etc.); and
- Address any issues associated with the point of regulation and its implementation.

1.3. For biomass determined by each WCI Partner jurisdiction to be carbon neutral, the carbon dioxide emissions from the combustion of that biomass are not included in the cap-and-trade program, except for purposes of reporting.

1.4. Carbon dioxide emissions from the combustion of pure biofuels, or the proportion of carbon dioxide emissions from the combustion of biofuel in a blended fuel (e.g., B20 or E85), are not included in the cap-and-trade program, except for purposes of reporting.

1.5. Prior to program start, the WCI Partner jurisdictions will assess whether and how to include upstream emissions from biofuel and fossil fuel production, taking into consideration the potential for emissions leakage, the potential role of other policies (such as a low carbon fuel standard), consistent treatment among fuels, and other factors (such as practicality of implementation).

1.6. As described in Section 5, Role of Other Policies, WCI Partner jurisdictions acknowledge that individual jurisdictions may utilize other fiscal measures such as British Columbia's carbon tax, to address transportation fuels and fuel use by residential and commercial sources that contribute to achieving overall comparable GHG emission reductions and internalize the price of carbon as expected through the regional cap-and-trade program.

1.7. Adequate quantification methods will be established for emissions sources prior to including them in the program.

2. Point of Regulation[4]

2.1. Industrial sources (both process and combustion) with emissions above the threshold: The point of regulation will be at the point of emission.

2.2. Electricity: The point of regulation is the First Jurisdictional Deliverer (FJD). For sources within WCI jurisdictions, the FJD is the generator. For power that is generated outside the WCI jurisdictions (or generated by a federal entity or on tribal lands) for consumption within a WCI Partner jurisdiction, the FJD is the first entity that delivers that electricity over which the consuming WCI partner jurisdiction has regulatory authority.

2.3. Residential, commercial, and industrial fuel combustion at facilities with emissions below the threshold: The point of regulation will be where the fuels enter commerce in the WCI Partner jurisdictions, generally at a distributor. The precise point is to be determined and may vary by jurisdiction.

2.4. Transportation fuel combustion: The point of regulation will be where the fuels enter commerce in the WCI Partner jurisdictions, which for liquid fuels is generally at the terminal rack, final blender, or distributor. The precise point is to be determined and may vary by jurisdiction.

3. Thresholds for Coverage Under the Cap-and-Trade Program

3.1. Emission threshold: 25,000 metric tons of carbon dioxide equivalents (CO_2e) annually defines the entities or facilities (e.g., First Jurisdictional Deliverer, fuel distributor, fuel blender) that will have a regulatory compliance obligation under the cap-and-trade program. Mandatory reporting data may be used to adjust this threshold for specific industries where necessary. Additional analyses will be performed to determine if adjustments to the threshold are needed to ensure sufficient coverage or to address competitiveness issues within individual sectors prior to the beginning of the program (e.g., because different WCI Partner jurisdictions may have the same industry but with different sized sources).

3.2. A method will be developed to prevent entities or facilities from avoiding coverage, such as by breaking themselves into separate power deliverers that each deliver electricity with emissions below the threshold.

4. Program Expansion

4.1. Future Program Expansion: The scope of the cap-and-trade program is capable of expanding over time (including possibly adjusting applicability thresholds). Prior to each compliance period, the WCI Partner jurisdictions will review whether to bring new sources into the program and, if so, which ones.

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[4] The *point of regulation* is the entity or facility with the compliance obligation, i.e., the requirement to surrender sufficient GHG allowances to cover actual emissions during the compliance period. An *allowance* is the tradable permit to emit one metric ton of GHG emissions in CO_2e. The term *entity* is generally used when the point of regulation is upstream of the point of emissions, to describe a company that has an obligation to surrender allowances to cover the carbon content of the fuel the company is moving through commerce, or when the point of regulation is at the First Jurisdictional Deliverer, to describe a company that has an obligation to surrender allowances to cover the emissions attributable to the generation of power the company is importing. When the point of regulation is at the point where the emissions occur, the term *facility* is generally used. The term *source* is used to refer to emissions from either a facility or an entity.

5. Role Of Other Policies[5]

5.1. The role of other GHG-reducing policies is to help the WCI Partner jurisdictions achieve their 2020 reduction goal and provide other benefits. Those policies will work in concert with the cap-and-trade program and may apply to any source of GHG emissions.

5.2. Carbon Tax and Other Fiscal Measures:

5.2.1. The WCI Partner jurisdictions agree that individual jurisdictions may use fiscal measures that contribute to achieving overall comparable GHG emission reductions and internalize the price of carbon as expected through the regional cap-and-trade program for transportation and residential/commercial fuels.

5.2.2. British Columbia currently has a carbon tax. By 2012, the WCI Partner jurisdictions will determine the mechanism for integrating the cap-and-trade program with the BC carbon tax.

6. Setting the Regional Cap[6]

6.1. The aggregate regional cap for the cap-and-trade program will:

6.1.1. Equal the sum of the WCI Partner jurisdictions allowance budgets (as referenced in Section 7.1).

6.1.2. Include annual caps (with 3-year compliance periods7) from the beginning of the program in 2012 through 2020. The annual caps will be set in advance of the program start in 2012 so that the total number of allowances issued in each 3-year compliance period through 2020 is known.

6.1.3. Decline over time. The regional cap trajectory for covered sectors will be a straight line from the year of initial coverage (2012 for some sources and 2015 for other sources) to 2020.

6.2. 2012: The initial regional cap will be set at the best estimate of expected actual emissions for those sources covered in the initial year of the program (i.e., 2012) as calculated through the Partner allowance budgets as described in 7.2.

[5] *Other policies* include complementary policies and alternative policies. A *complementary policy* is used in this context to mean policies other than a cap-and-trade program that aid in the goal of achieving emissions reductions for capped or uncapped sources. *An alternative policy* is a policy that is employed in lieu of a cap-and-trade program to achieve emissions reductions for one or more sources.

[6] The *regional cap* is the overall limit on total emissions set for the total emissions included in the cap-and-trade program.

[7] The 3-year compliance periods are 2012-2014, 2015-2017, and 2018-2020.

6.3. 2015: The regional cap in 2015 will be set by adding the best estimate of expected actual emissions in 2015 from transportation fuels and residential, commercial, and industrial fuels (and any other sectors or sources that may be added to the program for the first time in 2015) to the emissions trajectory for the sources first included in the program in 2012.

6.4. 2020: The regional cap for 2020 will be set so that reductions achieved by the cap plus reductions from other GHG reduction policies for uncapped sources will achieve the WCI regional 2020 goal.

6.5. Post-2020 caps: The WCI Partner jurisdictions will set these regional caps not less than three years in advance.

6.6. Once established, the regional cap for each compliance period will not be adjusted except as necessary to account for:

- Changes in WCI membership;
- Changes in scope or thresholds; or
- Data found to be incorrect or inaccurate that was used to determine the cap, which may become apparent, for example, after the start of mandatory reporting.

Any adjustments will be made prior to the beginning of the compliance period.

7. Apportionment[8]

7.1. Each WCI Partner jurisdiction will have an annual allowance budget within the declining regional cap from 2012 to 2020. The annual WCI Partner jurisdiction allowance budget for each year through 2020 will be set prior to the start of the program in 2012.

Each WCI Partner jurisdiction's 2020 allowance budget will be derived from its individual WCI Partner jurisdiction goal[9] used for purposes of the program, accounting for other policies described in Section 5.[10]

There are instances in which electricity is generated in one WCI Partner jurisdiction, but consumed in another WCI Partner's jurisdiction, giving rise to the possibility of double-counting emissions. WCI Partner jurisdictions in such situations will agree to an equitable solution in the context of the WCI cap-and-trade program design.

7.2. For 2012, each WCI Partner jurisdiction's allowance budget will be based on the best estimate of expected emissions for sources covered in the cap-and-trade program in the WCI Partner jurisdiction in 2012. The estimate of expected actual emissions in 2012 will be developed using the best available data (including any available mandatory reporting data) and by accounting for expected changes in emissions in 2012. Population growth, economic growth,

[8] *Allowance apportionment* describes the Partners' budget or share of WCI region-wide GHG emission allowances. Allowance budgets must be set for each Partner jurisdiction.

[9] Partner goals are those reduction goals or limits that have been established by each individual WCI Partner jurisdiction.

[10] By the end of 2009, Oregon will determine its cap-and-trade specific Partner goal at a level which is at least as stringent as the WCI regional goal.

voluntary and mandatory emission reductions, and other factors will be considered in making the estimate. Each WCI Partner jurisdiction's allowance budget will be adjusted to account for the production and consumption of electricity megawatt hours within each WCI Partner jurisdiction, population growth, and the share of total WCI Partner jurisdictions emissions in 2001 through 2005. Each WCI Partner jurisdiction will make a one-time contribution of 1% of their 2012 budget to be allocated to make these adjustments.

7.2.1. For 2015, each WCI Partner jurisdiction's allowance budget will be set by adding the best estimate of expected actual emissions in 2015 from transportation fuels and residential, commercial, and industrial fuels (and any other sectors or sources that may be added to the program for the first time in 2015) to the emissions trajectory for the sources first included in the program in 2012. The estimate of expected actual emissions in 2015 will be developed using the best available data (including any available mandatory reporting data) and by accounting for expected changes in emissions in 2015 for the sources added to the cap in 2015. Population growth, economic growth, voluntary and mandatory emissions reductions, and other factors will be considered in making the estimate.

7.2.2. From 2015-2020, the trajectory for each WCI Partner jurisdiction's annual allowance budget for covered sectors will be a straight line from the year of initial coverage (2012 for some sources and 2015 for other sources) to 2020.

7.3. For years post-2020, the WCI Partner jurisdictions will set allowance budgets not less than three years in advance.

7.4. Once established, each WCI Partner jurisdiction's allowance budget will not be adjusted except as necessary to account for:

- Changes in WCI membership;
- Changes in scope or thresholds; or
- Data found to be incorrect or inaccurate that were used to determine the cap or the WCI Partner jurisdiction allowance budgets, which may become apparent, for example, after the start of mandatory reporting.

Such adjustments will take effect at a regionally coordinated and designated time, such as at the beginning of a compliance period.

7.5. WCI Partner jurisdictions will recognize within their own jurisdictions allowances issued by other WCI Partner jurisdictions so that all WCI allowances are of equivalent use and fungible throughout the WCI region, regardless of which WCI Partner jurisdiction issues the allowances.

8. Distribution of Allowances[11]

8.1. Distribution of Allowances by WCI Partner jurisdictions: Once the allowance budget has been established for each WCI Partner jurisdiction, allowances will be issued by each WCI Partner within its own jurisdiction. Each allowance will be equal to one metric ton of carbon dioxide equivalent.

8.2. The WCI Partner jurisdictions agree that a portion of the value represented by each WCI Partner jurisdiction's allowance budget (for example, through set-asides of allowances, a distribution of revenues from the auctioning of allowances, or other means) will be dedicated to one or more of the following public purposes which are expected to provide benefits region wide:[12]

- Energy efficiency and renewable energy incentives and achievement;
- Research, development, demonstrations, and deployment (RDD&D) with particular reference to carbon capture & sequestration (CCS); renewable energy generation, transmission and storage; and energy efficiency;
- Promoting emission reductions and sequestration in agriculture, forestry and other uncapped sources; and
- Human and natural community adaptation to climate change impacts.

8.3. The remaining portion of the value represented by each WCI Partner jurisdiction's allowance budgets will be used as that jurisdiction sees fit. WCI Partner jurisdictions may consider objectives such as:

- Reducing consumer impacts, especially for low-income consumers;
- Providing for worker transition and green jobs;
- Achieving emission reductions in communities that experience disproportionate environmental impacts;
- Supporting community-wide efforts funded by local governments to reduce GHG emissions;
- Providing transition assistance to industries;
- Recognizing early actions to reduce emissions; and/or
- Promoting economic efficiency.

8.4. In advance of the first compliance period, and at least one year before the beginning of each relevant compliance period thereafter, each WCI Partner jurisdiction will advise the other WCI Partner jurisdictions how it intends to distribute or retire allowances so that all WCI Partner jurisdictions' plans can be made public in a coordinated fashion.

8.5. If analysis demonstrates that allocations to a particular sector should be treated uniformly by some WCI Partner jurisdictions in order to address competition among like facilities or entities within that sector, and if from that analysis some WCI Partner jurisdictions determine that it is necessary to address those competitiveness issues between the WCI Partner jurisdictions where the facilities or entities operate, those WCI Partner jurisdictions will

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[11] *Allowance distribution* is the Partners' initial distribution of GHG emission allowances into the market.

[12] This will recognize pre-existing commitments to action and legislative requirements on use of revenue (e.g., through BC's Climate Action Plan and Carbon Tax).

standardize the distribution of allowances as necessary to address competitive impacts sufficiently, in advance of the first compliance period.

- Potential sectors where analysis to consider similar treatment is appropriate include those with process (non-combustion) emissions where the greatest emission reduction potential is associated with large technology changes and high GHG emission intensity, such as aluminum, steel, cement, lime, pulp and paper, and oil refining.
- Some WCI Partner jurisdictions may also decide that based on analysis of competitive factors in the electricity sector, distribution of allowance value or auction revenues in that sector should be standardized between those WCI Partner jurisdictions where competitive issues are recognized.

8.6. A WCI Partner jurisdiction will allocate or retire all the allowances in its allowance budget by the end of the applicable compliance period. Except as provided in Section 8.10, a WCI Partner jurisdiction will not hold allowances beyond the end of the compliance period.

8.7. Recognizing the WCI Partner jurisdictions objective of standardizing treatment of some sectors, and acknowledging the differences in the appropriate use of auctions by sector:

8.7.1. Consistent with applicable state and provincial law, the WCI Partner jurisdictions will auction a minimum of 10% of the allowance budget in the first compliance period beginning in 2012. This minimum percentage will increase to 25% in 2020. The WCI Partner jurisdictions aspire to a higher auction percentage over time, possibly to 100%.

8.7.2. Each WCI Partner jurisdiction has discretion to auction a greater portion of its allowance budget as it sees fit.

8.7.3. If a WCI Partner jurisdiction cannot auction allowances, that Partner jurisdiction will notify the other WCI Partner jurisdictions at least six months before the beginning of auctions scheduled for each compliance period. The fact that a WCI Partner jurisdiction cannot auction allowances shall not preclude the other Partner jurisdictions from doing so.

8.8. To the extent WCI Partner jurisdictions auction allowances, those jurisdictions will undertake auctions through a coordinated regional auction process by which each participating WCI Partner jurisdiction will auction allowances throughout the WCI region and receive their proceeds from the auction.

8.9. By the end of 2009 the WCI Partner jurisdictions will develop a design for the coordinated regional auction process. The WCI Partner jurisdictions will design the auction process to consider and prevent market manipulation.

8.10. To manage the risk of inadvertently setting the program cap higher than intended relative to emissions covered by the program, a reserve or minimum price will be established for a portion of the auctioned allowances. Consistent with applicable state and provincial law, this portion will equal 5% of allowances issued by any WCI Partner jurisdiction. If any of these allowances when offered at auction are not purchased at or above the reserve or minimum price, a fraction of the unsold ones will be retired. The unsold allowances that are not retired may be auctioned in later compliance periods or retained by the individual WCI Partner jurisdictions for use as each sees fit in later compliance periods, as determined in advance by the WCI Partner jurisdictions. Any WCI Partner jurisdiction that does not participate fully in the auction with the reserve or minimum price will retire the same proportion of its allowance budget as those retired by the WCI Partner jurisdictions that participated in the auction. The percentage of the allowance budgets, the reserve price, the fraction of unsold allowances that will be retired, and the fraction of unsold allowances that will be retained by the individual WCI Partner jurisdictions will be determined as part of the auction design.

8.11. Early Reduction Allowances. The program will encourage entities and facilities included under the cap to reduce GHG emissions before the start of the first compliance period in 2012.

8.11.1. Each WCI Partner jurisdiction may issue Early Reduction Allowances for certain emissions reductions at covered entities and facilities within its jurisdiction that are achieved after January 1, 2008 and before January 1, 2012.

8.11.2. By the end of 2009, the WCI Partner jurisdictions will jointly establish criteria to determine which early reductions will be eligible for Early Reduction Allowances. The criteria will ensure that the reductions are voluntary, additional, real, verifiable, permanent and enforceable.

8.11.3. Each WCI Partner jurisdiction that issues Early Reduction Allowances will do so in 2012. Any Early Reduction Allowances issued will be in addition to each WCI Partner jurisdiction's 2012 allowance budget.

8.11.4. These allowances shall be treated like other allowances in the cap-and-trade program.

8.12. Other Early Actions and Set-Asides: Each WCI Partner jurisdiction has discretion to recognize early actions other than those under Section 8.11, or otherwise set-aside allowances for distribution. Recognition for early action or set-asides under this subsection will come from within the cap and will come out of the individual WCI Partner jurisdiction's allowance budget.

8.13. Banking: Purchasers and covered entities or facilities, and parties who otherwise obtain allowances, will be allowed to bank allowances without limitation, except to the extent that restrictions on the number of allowances any one party may hold are necessary to prevent market manipulation.

8.14. Borrowing: Borrowing of allowances from future compliance periods will not be allowed.

8.15. Compliance Periods: Each compliance period will be three years long.

9. Offsets,[13] and Allowances From Other Systems

9.1. The WCI Partner jurisdictions will include a rigorous offsets system. The primary role of the offsets system is to reduce the compliance costs for the cap-and-trade program, while ensuring the environmental integrity of the cap.

9.2. The WCI Partner jurisdictions will limit the use of all offsets, and allowances from other GHG emission trading systems that are recognized by the WCI Partner jurisdictions, to no more than 49% of the total emission reductions from 2012-2020 in order to ensure that a majority of emission reductions occur at WCI covered entities and facilities. Each WCI Partner jurisdiction will have the discretion to set a lower percentage limit. All offsets and non-WCI allowances must meet the rigorous criteria established by the WCI Partner jurisdictions.

The WCI Partner jurisdictions will establish criteria to ensure that all offset projects used to meet a compliance obligation result in a GHG reduction, removal or avoidance that is real, surplus/additional, verifiable and permanent or that meets a comparably rigorous standard as described in Section 9.7 below. Offset projects must also be enforceable by the individual WCI Partner jurisdiction that is issuing the credit and the credit must be verifiable by the individual WCI Partner jurisdiction that is accepting it. The criteria will ensure that the quantification of the GHG reduction, removal, or avoidance is accurate and not double counted. The standards and processes for approving offset projects will be developed and implemented in an open and transparent manner that will be well-defined in advance of the start of the cap-and-trade program.

9.3. The WCI Partner jurisdictions encourage the development of offset–projects located inside WCI jurisdictions for compliance purposes in the WCI cap-and-trade regulatory program in order to capture collateral benefits associated with some offsets projects, such as health, social, and environmental benefits.

9.4. The WCI Partner jurisdictions have identified the following list of project types as a priority for investigation and development to participate in the offset system. Making these project types a priority means the WCI Partner jurisdictions are interested in understanding if they are suitable for the offset system, if they will meet the criteria for environmental integrity, and if adequate protocols/methodologies for their quantification and monitoring can be adapted or developed. Priority does not mean these project types are guaranteed to be in an offset system. Project types that reduce emissions that would eventually be covered by the cap-and-trade system would only be eligible until that coverage begins. Project types that reduce emissions covered by the cap-and-trade system would not be eligible to create offsets because the result would be a double counting of the emission reduction. The list is in alphabetical order and does not directly or indirectly represent a ranking or order of preference:

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[13] *Offsets* are emission reduction projects undertaken to address emissions not included in a cap-and-trade program. An offset mechanism enables covered entities to offset their own emissions by purchasing emission reduction credits generated through projects that address emissions not covered by the cap.

- Agriculture (soil sequestration and manure management);
- Forestry (afforestation/reforestation, forest management, forest preservation/conservation, forest products); and
- Waste management (landfill gas and wastewater management).

9.5. Starting in 2009, the WCI Partner jurisdictions will coordinate to review, develop, and approve, as appropriate, protocols for the project types that meet the necessary criteria for inclusion. The WCI Partner jurisdictions will use offset protocols that are standardized to the extent possible and make use of (or adapt if needed), existing protocols as appropriate. The WCI Partner jurisdictions will also initiate the establishment of a process during 2009 to coordinate the review and approval of other project types and protocols proposed by project developers. The WCI Partner jurisdictions will establish rigorous criteria for inclusion of offsets in the WCI program.

9.6. WCI Partner jurisdictions will recognize offsets meeting the WCI criteria within their own jurisdictions regardless of which WCI Partner jurisdiction issued them, so that all WCI offsets are of equivalent use and fungible throughout the WCI region. Offsets not meeting the WCI criteria will not be accepted for compliance purposes.

9.7. WCI Partner jurisdictions may approve and certify offset projects located throughout the United States, Canada, and Mexico where such projects are subject to comparably rigorous oversight, validation, verification, and enforcement as those located within the WCI jurisdictions. WCI Partner jurisdictions will not approve offset credits for GHG reductions in developed countries (Annex 1 countries in UN Framework Convention on Climate Change) for projects that reduce, remove, or avoid emissions from sources that within WCI Partner jurisdictions are covered by the cap-and-trade program.

9.8. The WCI Partner jurisdictions may accept offset credits from developing countries through the Clean Development Mechanism (CDM) of the Kyoto protocol, and the WCI Partner jurisdictions may establish added criteria to ensure similar rigor to WCI approved/certified offset projects or other requirements, such as international offset standards, as appropriate to enable use of these offset credits in the cap-and-trade program.

9.9. The offset protocols used by the WCI Partner jurisdictions will meet rigorous criteria to preserve the environmental integrity of the overall cap-and-trade program.

9.10. WCI Partner jurisdictions do not intend to regulate or restrict the existing voluntary market in offsets, to restrict the sale of offsets from projects located within a WCI Partner jurisdiction, or to place restrictions on ownership of offsets projects located within WCI Partner jurisdictions.

10. Reporting

10.1. Mandatory measurement and monitoring for the six included GHG emissions will commence in January 2010 for all entities and facilities subject to reporting. Reporting of 2010 emissions will begin in early 2011.

10.2. The entities and facilities subject to reporting are those with annual emissions equal to or greater than 10,000 metric tons of CO_2e. Where fuel combustion emissions are covered upstream (e.g., emissions from transportation fuel combustion and emissions from fuel combustion at residential, commercial, and industrial facilities with emissions below the threshold) the reporting threshold will apply to entities (e.g., fuel distributors and blenders) based on the expected combustion emissions from the fuels distributed. In some limited instances the threshold may be based on other parameters, such as throughput or capacity, as long as these thresholds represent the equivalent of, or are lower than, the 10,000-metric-ton threshold..

10.3. WCI Partner jurisdictions will require third party verification of reported emissions from entities and facilities that will be included under the cap.

10.4. Prior to the start of the mandatory reporting program, the WCI Partner jurisdictions will establish the essential requirements for reporting by all entities and facilities required to report in each of the WCI Partner jurisdictions.

10.5. As each WCI Partner jurisdiction collects additional emissions data from entities and facilities required to report, data will be made available to all WCI Partner jurisdictions for review and consideration for possible expansion of the cap-and-trade program.

10.6. Nothing in the WCI program design limits the discretion of any WCI Partner jurisdiction to require reporting earlier, at lower thresholds, or for entities and facilities not covered by the cap-and-trade program.

11. Start Date for Cap-and-Trade

11.1. The cap-and-trade program will launch January 1, 2012.

12. Compliance and Enforcement

12.1. Each WCI Partner jurisdiction will retain and/or enhance its regulatory and enforcement authority and responsibilities to enforce compliance with the cap-and-trade program within its own jurisdiction.

12.2. Each covered entity or facility will demonstrate compliance with the cap-and-trade program by surrendering sufficient allowances by July 1 of the year following the end of each compliance period. To ensure transparency and maintain public confidence, certain data from the emissions reports, allowances, and offsets that are used for compliance will be made public in a timely manner.

12.3. If by the deadline for demonstrating compliance a covered entity or facility does not have sufficient allowances to cover its emissions for the previous compliance period, it shall be required to obtain and surrender three allowances for every metric ton of CO_2e not covered by an allowance at the deadline. This does not preclude other penalties allowed under individual state or provincial laws.

12.4. The WCI Partner jurisdictions recognize that during the first compliance period, both they and the entities and facilities covered by the cap-and-trade program will likely encounter issues that arise in the implementation of any new program. Consequently, the WCI Partner jurisdictions are committed to providing appropriate technical and other compliance assistance to the program participants.

12.5. The WCI Partner jurisdictions will ensure accounting systems are in place to prevent using allowances, tradable units, and offsets more than once for compliance.

13. Regional Organization, New WCI Partner Jurisdictions, and Linkage

13.1. To reduce administrative costs and improve program transparency and consistency, a regional administrative organization will be created to:

- Coordinate the regional auction of allowances;
- Track emissions and provide public information on progress towards the WCI regional goal;
- Monitor and report on market activity, including any potential market manipulation;
- Serve as a forum for WCI Partner jurisdictions to update one another on program progress;
- Coordinate review and adoption of protocols for offsets;
- Coordinate review and adoption of updated reporting protocols;
- Coordinate review and issuing of offset credits; and
- Suggest criteria and means to accredit service providers to deliver validation and verification services.

13.2. New WCI Partner jurisdictions will come into the cap-and-trade program at a regionally coordinated and designated time, such as the beginning of the relevant compliance period.

13.3. Before joining, a new WCI Partner jurisdiction must have adopted an economy-wide GHG reduction goal for 2020 that is at least as stringent as the WCI regional goal.

13.4. Determination of allowance budgets for new WCI Partner jurisdictions will take into account the following parameters:

- The WCI regional goal;
- Allowance budgets for existing WCI Partner jurisdictions;
- The share of the new WCI Partner jurisdiction's budget that is already included through the WCI's regional cap-and-trade program provisions covering imported electricity; and
- The new Partner's individual GHG emissions reduction goal.

13.5. The WCI Partner jurisdictions will seek bilateral and multilateral linkages with other government-approved cap-and-trade systems so that those allowances and allowances issued by WCI Partner jurisdictions would be fully fungible. Until such bilateral or multilateral linkages are established, the use of allowances from other cap-and-trade systems will be limited as described in Section 9.2.

14. WCI Design and Possible Federal Programs

14.1. The WCI Partner jurisdictions have designed a program that can stand alone, provide a model for, be integrated into, or be implemented in conjunction with programs that might ultimately emerge from the federal governments of the United States and Canada. The WCI Partner jurisdictions intend to promote and influence federal GHG emission reduction programs that are consistent with WCI cap-and-trade design principles, and ensure those programs translate into absolute GHG reductions. In the event WCI issues allowances before a federal program in Canada or the United States, WCI Partner jurisdictions will work to ensure that those allowances are fully recognized and valued in the operation of a federal program.

14.2. The approach taken by the WCI Partner jurisdictions builds upon the experience gained by the WCI Partner jurisdictions in developing and implementing climate change action plans and other market-based programs to address air quality issues, including the regional haze and acid rain programs in the United States. Continued leadership in developing a regional cap-and-trade program allows the WCI Partner jurisdictions to take important action now and promote and protect the interests of early actors in the design and implementation of future national and international programs. Taking action now to achieve emission reductions will position WCI Partner jurisdictions to be leaders in the carbon constrained future.