WRI Brief Assessment of Allowance Distribution under H.R. 2454, the American Clean Energy and Security Act (Waxman-Markey)

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H.R. 2454, the American Clean Energy and Security Act (herein referred to as the ACESA[2] distributes emission allowances to various purposes. This brief assessment is intended to clarify how allowances are distributed, who receives allowance value and for what purpose that allowance value may be used.

There are two primary ways that ACES distributes allowances into the U.S. economy. First, allowances may be auctioned with the proceeds distributed to fund various purposes according to instructions included in the legislation. Second, allowances may be distributed for free to public and private entities based on various formulas and with differing levels of restrictions on their use by these entities. *Since the allowance value does not change under either auction or allocation, the method used to distribute allowances matters far less than who receives allowances and how they may be used.*

Based on the legislative language and intent, WRI analyzed where allowance value flows under the ACESA:[3] The various recipients and uses of allowances are grouped into the following six categories:

- **Auction with proceeds to the public.** For example, low-income consumer assistance.
- **Auction with proceeds to agencies for public benefit.** For example deficit reduction.
- **Free allocation to agencies for public benefit.** For example, state programs for energy efficiency.
- **Free allocation to regulated entities to benefit energy consumers.** For example, allocations to local distribution companies for ratepayer benefit.
- **Free allocation to regulated entities for technology deployment.** For example, payments for carbon capture and storage of CO2.
- **Free allocation to regulated entities with no restrictions.** For example, allowances to trade exposed industries.

Charts 1 and 2 present how allowances are distributed under the ACESA to these categories on an annual and cumulative basis respectively. The following key findings are apparent:

- The amount of allowance value that does not go to some public purpose but instead goes free to regulated entities starts at just over 8 percent, increases to 23 percent in 2014 and then declines to about 21 percent through 2025. It decreases steadily to zero thereafter unless the President adjusts the distribution formula.
- On a cumulative basis, regulated entities receive up to 19 percent of total allowance value from 2012 through 2025 and 12 percent from 2012 through 2050.
- The amount of allowance value directed to consumers or for other public benefit totals 76 percent of the cumulative allowance pool from 2012 through 2025 and 83 percent from 2012 through 2050. This is value that is not directly distributed to regulated entities in any way.
- The amount going to energy consumers for rate payer benefit tops out at just under 40 percent of the annual allowance pool in most years through 2025.
- As rate payer benefits phase out, the amount of value distributed directly to citizens increases. Low income energy consumers receive 15 percent of the allowance pool in all years of the program. In addition, starting in 2025, the climate change dividend to all U. S. citizens grows from zero to as much as 55 percent of the allowance pool on an annual basis.

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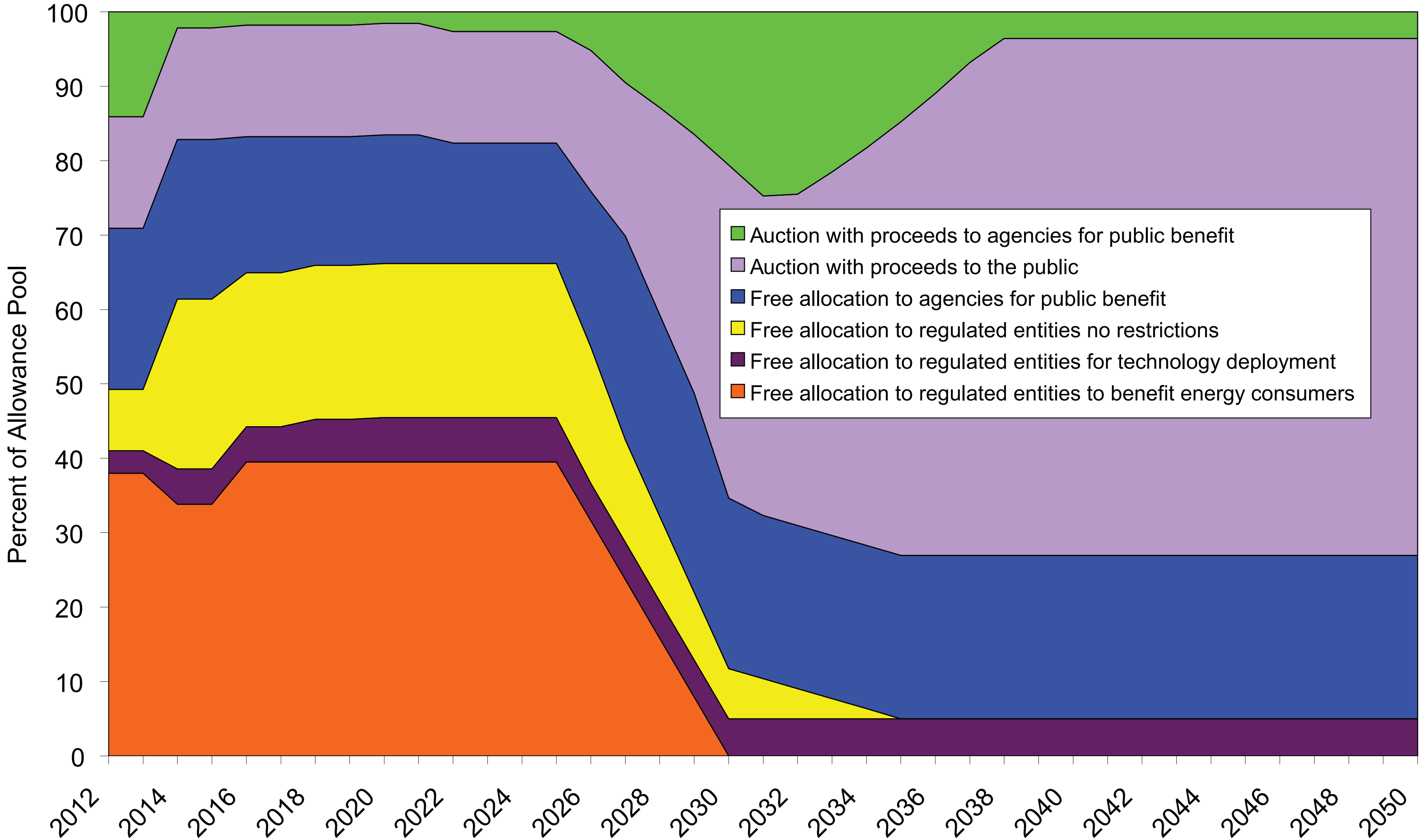
[2] This summary applies only to the substitute to HR 2454 as posted on the House Rules Committee website on Monday June 22, 2009 and not subsequent iterations.

[3] For a complete description of what is included in each category please see appendix A

Chart 1. Allowance Value Distribution Under the Substitute to HR.2454
2012-2050
June 25, 2009



Note: Analysis refers to the substitute to H.R. 2454 released on June 22, 2009

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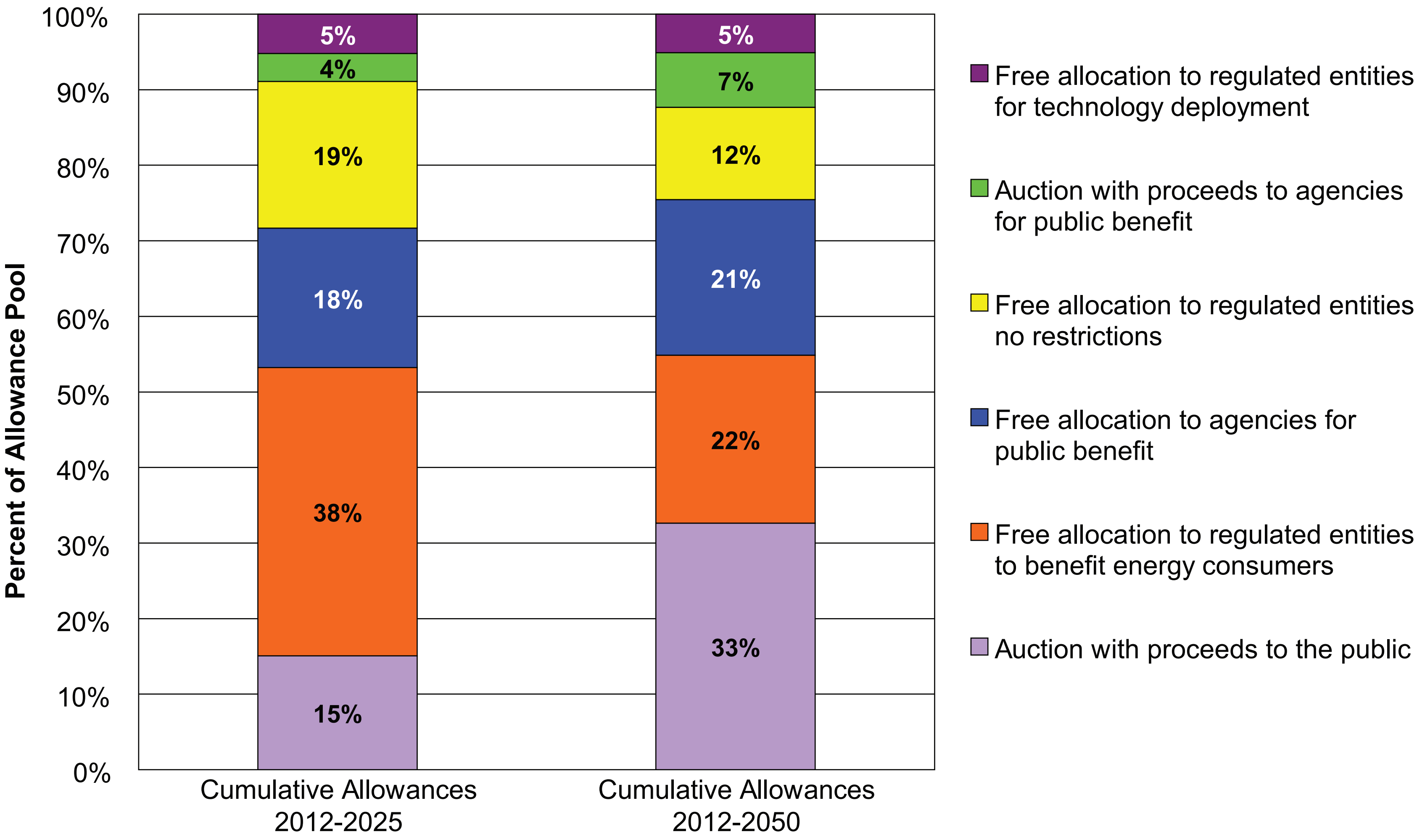
For a full discussion of underlying methodology, assumptions and references, please see http://www.wri.org/usclimatetargets.

Chart 2. Cumulative Allowance Distribution Under the Substitute to H.R.2454
In Select Timeframes
June 25, 2009



Note: Analysis refers to the substitute to H.R. 2454 released on June 22, 2009

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Appendix A.

Methodology.
This analysis relies on WRI's previous analysis of emission reductions under the ACESA to generate annual allowance budgets that are then distributed for various purposes (sections 781 through 790). The analysis interprets the legislative language to generate allowance amounts for each purpose. Allowances used to initially fill the strategic reserve are subtracted from the total allowance pool *before* allowance disposition rules are applied (see section 726). Also, under section 790 the bill requires an exchange of state allowances for federal allowances. These allowances, while coming out of the total allowance pool after the reserve subtraction are not accounted for here for lack of data on how many allowances may be exchanged.

Certain allocation purposes in the ACESA provide an annual maximum allowance allocation which may not be exceeded but may be less than the maximum. These include allowances to trade exposed, energy intensive industries, merchant coal generators and generators with long term contracts. If the allowance pools dedicated to these purposes are not fully distributed, allowances would be auctioned and placed directed to reduce the deficit (through 2025) or fund the climate change dividend (after 2025).

In certain instances allowances are released in advance of their vintage year. For example, see section 782(p). For this analysis we assign allowance value to each vintage year and not the year in which allowances are released.

Finally, the distribution method stipulated by the bill (allocation or auction) may change at the discretion of allowance recipients. These recipients may ask the EPA Administrator to auction allowances on consignment with the proceeds distributed back to the allowance recipients (see section 792). Depending on how many recipients choose to auction allowances on consignment the amount of allowances auctioned under the ACESA may increase far above the initial amounts mentioned in this analysis.

Allowance distribution categories.
The ACESA contains 25 different categories for allowances value distribution (see sections 781-790), this assessment combines them into the follow six categories:

Auction with proceeds to the public. These allowances are auctioned with proceeds funding energy rebates for low income consumers and the climate change dividend program.
Auction with proceeds to agencies for public benefit. These allowances are auctioned with proceeds going to state and federal agencies, which must use the value for public benefit. Programs that receive allowance value include deficit reduction, investments in workers and federal wildlife and public heath adaptation programs.
Free allocation to regulated entities to benefit energy consumers. These allowances are allocated for free to electric and natural gas local distribution companies (including small local distribution companies) and must use the value to benefit rate payers and in some cases fund efficiency projects. State public utility regulators are ultimately responsible for insuring that allowance value is used exclusively to the benefit of ratepayers.
Free allocation to regulated entities for technology deployment. These allowances are allocated for free to electric power generators and industrial facilities as an incentive for certain levels of permanent CO_2 capture and sequestration and to vehicle makers for clean vehicle research and manufacturing.
Free allocation to agencies for public benefit. These allowances are allocated for free to state and federal agencies for variety of public purposes including domestic and international adaptation, international clean technology deployment, state efficiency, renewable energy and building code programs, international forest protection and for the benefit of heating oil and propane consumers.
Free allocation to regulated entities with no restrictions. These allowances are allocated for free to certain coal generators, generators with long term contracts, industrial facilities and petroleum refineries and may use them any way they wish.