



Task Force on  
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# Climate Issue Brief

Climate Issue Brief #3

## Principles for Cost Containment in a GHG Cap-and-Trade System

NARUC recognizes that greenhouse gas regulation will have impacts on energy prices. In order to minimize undue adverse impacts, NARUC supports strategies to reduce the costs associated with a cap-and-trade program. Such strategies include: (1) public policies that improve energy efficiency in the generation, transmission, and use of electricity, as these policies reduce the need to produce emissions and purchase allowances; (2) ensuring that there is an effective program of GHG offsets that reduces out-of-sector emissions while increasing the supply of allowances; and (3) providing a mechanism that can directly constrain allowance prices in the event that prices reach a point that would cause unreasonable economic disruption. Successful implementation of the first two strategies will reduce the likelihood that such a mechanism will be triggered. The following sections provide brief overviews of the rationales for these strategies.

### Reduction of Sector Emissions

Greenhouse-gas regulation that attempts to reduce emissions through price signals alone will be more costly than one that combines a price signal with effective foundational public policies and investments in energy efficiency, improved infrastructure, and research and development on low-GHG energy sources, and energy storage.<sup>1</sup> Allowance revenues, where available, are one potential means of providing resources to fund these programs. Successful public investments will effectively reduce both electricity rates and overall economic costs of the country's GHG reduction efforts.

### Use of Offsets

A U.S. cap-and-trade system should include a carefully designed program for offsets that provide real, verifiable, and permanent greenhouse gas reductions. An offset program can help reduce GHG concentrations and enhance the supply of allowances. A program of offsets that includes developing countries can provide real GHG reduction benefits while helping to incentivize those nations' transition to lower-carbon energy systems.

### Direct Price Limits

Even with the implementation of the cost-containment measures discussed above, additional measures may be required to ensure that a cap-and-trade program does not result in economic disruption. A cap-and-trade system should include cost-containment provisions that provide effective limits on allowance prices in order to prevent undue economic harm. The mechanism chosen should provide clarity and certainty about the conditions that trigger the release of additional allowances into the market, and about the nature and extent of those releases. The chosen policy should preserve strong incentives for GHG-reducing investment and maintain emission-reduction progress over the long term while ensuring that ratepayers are treated fairly.

<sup>1</sup> NARUC's Climate Issue Brief #4, *State Clean Energy Policies: The Foundation for an Electric Sector Cap-and-Trade Program*, provides greater detail on these policies and the role of public investment.