

Alberta Environment Emissions Trading Project

THE MAJOR FEASIBILITY STUDY CONSULTATION DOCUMENT

Alberta Environment (AENV) would like your input. The material below is draft content for translation into services required for a major emissions trading study Alberta Environment will be putting out to tender in late June 2002. This technical study is a key component of AENV's Emissions Trading Project, which is examining the potential and opportunity for Alberta-based air pollutant and greenhouse gas emissions trading.

We would appreciate your input on the proposed content of the study. In particular, we ask for your thoughts on the content in the "Summary" and "Possible report elements". While the list of elements is not intended to be exhaustive, are any key elements missing given the objectives for the study? Do any parts require clarification? Do you have other suggestions or comments that would be useful to the project team in specifying the services required for the tendering process?

Please e-mail any comments and suggestions to Sherry Fulton (Sherry.Fulton@gov.ab.ca) by May 31, 2002. For our information, please provide your name, address, phone number and title and organizational or corporate affiliation if applicable.

Major Feasibility Study Timelines:

- Tendering contract: late June, 2002
- Study term: Sept. – Dec., 2002
- Up to 1 internal and two external stakeholder workshops on interim findings: October 28 – November 8

Study objectives:

- Assess the potential of emissions trading and a related broader basis for setting air emissions limits (baseline and credits and/or cap and trade (output/intensity-based or absolute)) to enhance Alberta's air emissions management framework to achieve better environmental results and improved cost-effectiveness for the private and public sectors.
- Provide the Department of Environment with detailed analysis and a precise identification of the potential and opportunity for (air pollutant and ghg) emissions trading, and recommend steps to implement that opportunity.

Process objectives:

- Provide findings that will be useful to the Clean Air Strategic Alliance's Electricity Project Team that is looking at air emission management approaches in the electricity sector.
- Better position Alberta, after the submission of the CASA project team report in June 2003, to make a possible decision on establishing an Alberta-based air emissions trading system, which could include one or more air pollutants and greenhouse gases, and setting related broad air emission limits.
- Provide key stakeholders with an opportunity to provide input on the terms of reference of this study and to provide input on interim findings of the study before the report is completed.

- Take into account and provide information to relevant developments contemporaneous to the preparation of the report, including CASA work, Climate Change Central work, federal (including the National Roundtable on the Environment and the Economy) and National Climate Change Process work on ghg emissions trading and any new developments in plans for international ghg emissions trading both in the public and private sectors.

Summary:

- Based in part on analysis of Alberta's current emissions profile, number and distribution of point-source emitters, and marginal costs of abatement, this technical study will assess in detail the potential and opportunity for emissions trading of one or more air pollutants and greenhouse gases, and related broad emissions limits, to produce better environmental results at least cost to participants and make better use of government resources available for the environment, and will:
 - Based on criteria agreed upon with the client (e.g. least cost to participants, capable of producing better environmental results, viability of trading option, addresses "hot spot local pollution" concerns, as simple and transparent as possible, requires no more – and preferably less - government resources/expenditure than present management framework) recommend the best emissions trading and emissions limits opportunity for Alberta, with all relevant design features (including allocation of permits, coverage of sectors, geographic coverage, the specific air pollutants and greenhouse gases to which the option would apply and the range of level and type of penalty for non-compliance) and possible linkages to other trading systems,
 - Outline and assess the obstacles to achieving this opportunity and recommend solutions to overcome them,
 - Outline viable alternatives, or modifications, to the recommended trade and emission limits opportunity, that might be required to overcome obstacles, and indicate their advantages and disadvantages,
 - Provide recommended steps, from a technical perspective, to implement the recommended option, if a decision were made to implement that option.

Possible report elements include:

1. Strengths and limitations of Alberta's existing air emission management framework
2. Challenges facing the existing Alberta air management framework and how emissions trading and related emission limits might address those challenges
 - Including identification of environmental and cost-effectiveness benefits
3. Broad air pollutant and greenhouse gas emission limits through baseline and credits and/or cap and trade (output/intensity-based or absolute) options - detailed analysis and identification of opportunities
4. Emissions trading opportunity detailed analysis, including:
 - Alberta's current emissions profile, number and distribution of point-source emitters and sectors and marginal costs of abatement,

- Evaluation of the pros and cons of a closed cap and trade vs. an open cap and trade vs. a baseline and credit approach in the Alberta context:
 - Would these models work for all air pollutants and greenhouse gases?
 - Would there be significant differences in implementation costs or operation costs among these options?
 - Identification of the pros and cons in the Alberta context of output-based caps on emissions vs. absolute caps on emissions:
 - If intensity or output-based caps were adopted, how would the output-based limit best be defined?
 - How could economic growth and new entrants best be addressed?
 - Identification of specific tradability issues associated with air pollutants in the Alberta context:
 - Impact of transfer coefficients on trading, including examples
 - The feasibility of a limited permits approach – for example, could SOX and NOX be combined in one permit?
 - Alternatively, is it necessary to have an emissions permit for each air pollutant, and one for greenhouse gases?
 - Identification of the pros and cons of alternate permit allocation strategies in the Alberta context:
 - By company vs by facility
 - Grandfathered or gratis allocation vs. auction
5. Identification of necessary/useful external linkages and consistencies
 6. Design options
 7. Criteria for assessing design options
 8. Assessment of design options based on criteria
 9. Recommended emissions trading and emissions limits option; major viable alternatives and modifications with pros and cons
 10. Estimated implementation costs of recommended option for private sector and government; resources and capacity required by government
 11. Implementation challenges and how they could be overcome
 12. Recommended implementation steps
 - Including consideration of staging

For further information see the Alberta Environment Emissions Trading Project web page at (http://www3.gov.ab.ca/env/air/emissions_trading/index.html). This will be updated as new developments occur.