Options for Managing Costs in Carbon Markets

Transportation and Climate Initiative
Technical Workshop: Regional Cap and Invest for Transportation

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APRIL 30, 2019
Uncertainty Abounds....Embrace It

• The energy landscape has many moving parts
  • E.g., weather, fuel prices, economic conditions, technology costs
  • Consequently, costs of climate policy are difficult to predict
  • Very high and very low costs could be problematic

• Flexible Policies (C&T/C&I) can accommodate uncertainties
  • Policy design choices matter for managing costs

• What can we learn from existing carbon markets?

• What is new and different about transportation?
Natural Gas Price Fluctuations Have Been Large

Multi-year compliance periods in RGGI help smooth effects of fuel price fluctuations

Source: Macrotrends
Inability to bank allowances from Phase 1 for use in Phase 2 contributed to price collapse in EU ETS.
RGGI’s Price Floor Was Crucial
California and Quebec Allowance Prices

California and Quebec CO₂ Allowance Prices

Dollars, nominal

Price Floor

The price floor: an innovation first by RGGI


California
California-Ontario-Quebec Joint Auction
California-Quebec Joint Auction

Note: Auction prices are used where market prices are not available.
Sources: Thomson Reuters; California ARB; Quebec MDDELCC.
Supply in N. American Carbon Trading Programs

**Quantities with Prices**

Including consignment auctions with free allowances
Gasoline Prices Fluctuate over Time

A $25/ton carbon price equates to about $0.22/gallon of gasoline

Source: US Energy Information Administration
Ways to Manage Costs in Transport C&I

• Multi-year Compliance and Allowance Banking
• Price Responsive Supply
• Expand the Market
  • Link across states
  • Link across sectors (RGGI)
• Offsets
• Investments
  • Reduce VMT by investing in alternatives
  • Reduce emissions through infrastructure and new technologies
  • *Revenue for investments more predictable if costs managed*

Despite appearances to the contrary, distributing allowances for free is not a way to manage costs to consumers of carbon pricing policy.
Thank you.

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