

Cost Containment Comments

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Cost Containment

- Reduce expected cost of a cap-trade proposal by...
 - Reducing cap stringency (as via safety valve)
 - Increasing program efficiency
 - Especially flexibility (as via offsets, banking, borrowing)
 - Increasing direct support for technology development, demonstration and deployment
 - Allocating allowances
- Reduce unexpected cost of a cap-trade proposal by ...
 - Enforcing a CO₂ price ceiling
 - Facilitating an allowance bank

Some Cost Containment Options

	Reduces Expected Stringency	Increases Efficiency	Reduces Unexpected Cost	Comment
Safety Valve	Yes	No	Yes	Cost vs. stringency
Borrowing	No	Maybe	Yes	Interest? Term?
Triggered	Maybe	Maybe	Maybe	Scale match?
CMEB	No	Maybe	Maybe	Even with 0% interest, may not be helpful
Reserve	No	Maybe	Yes	Fixed quantity?
Allocate allowances	No	No	No	Windfall avoidance

Two Key Elements

- **Price.** Policy handle on price seems important for cost containment
 - Probably via safety valve
- **Allocation.** Allowance allocation to traditionally regulated utilities seems like a good way to reduce customer burden
 - Raises no windfall concerns
 - Avoids customers paying twice for control

