Potential Reforms and Extensions To the Trading Program

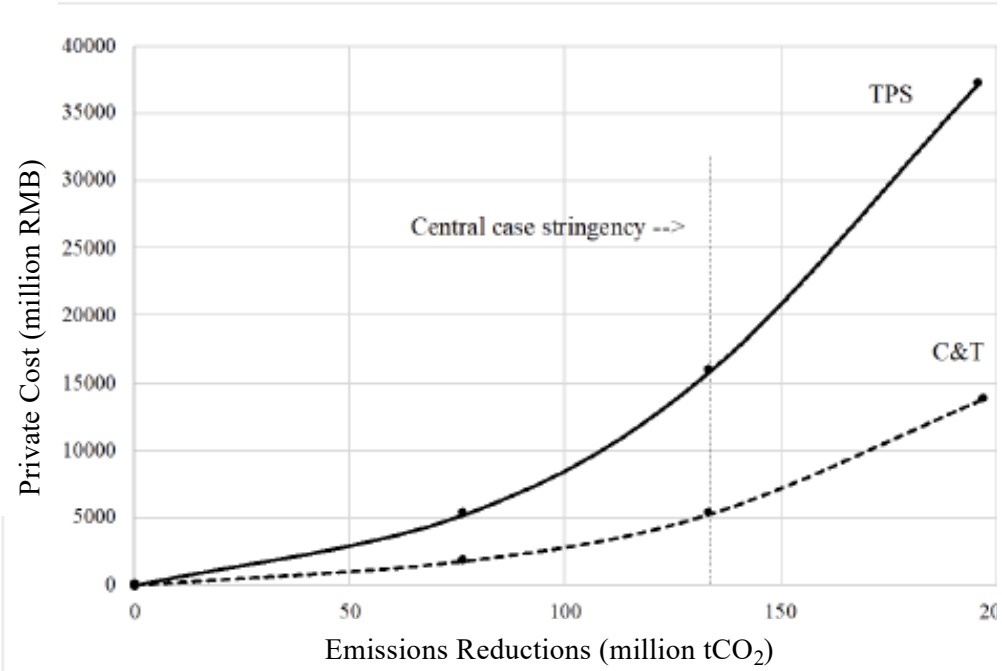
- Transition to a Mass-Based System
- Introduction of a Price Collar
- Including Renewables within the TPS

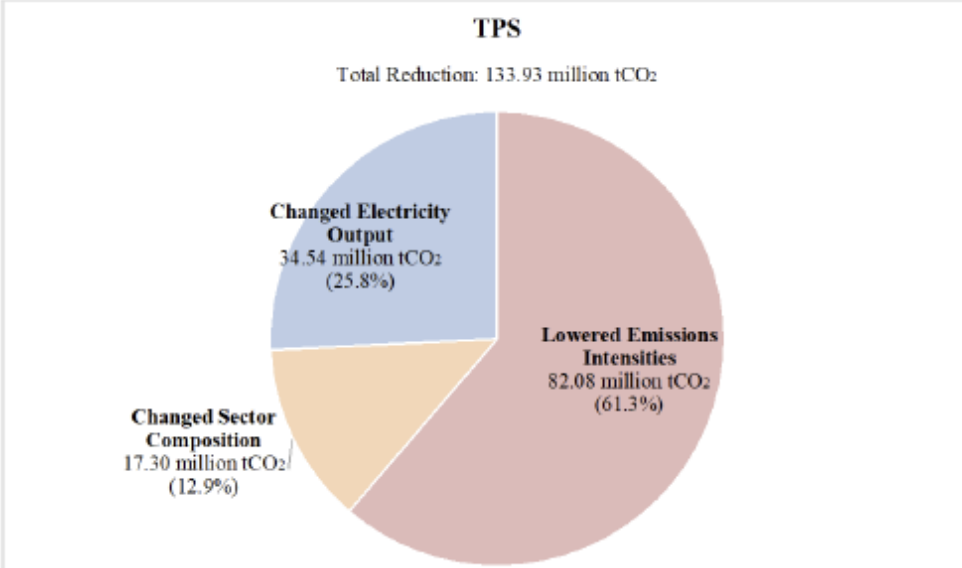
1. Transition to a Mass-Based System

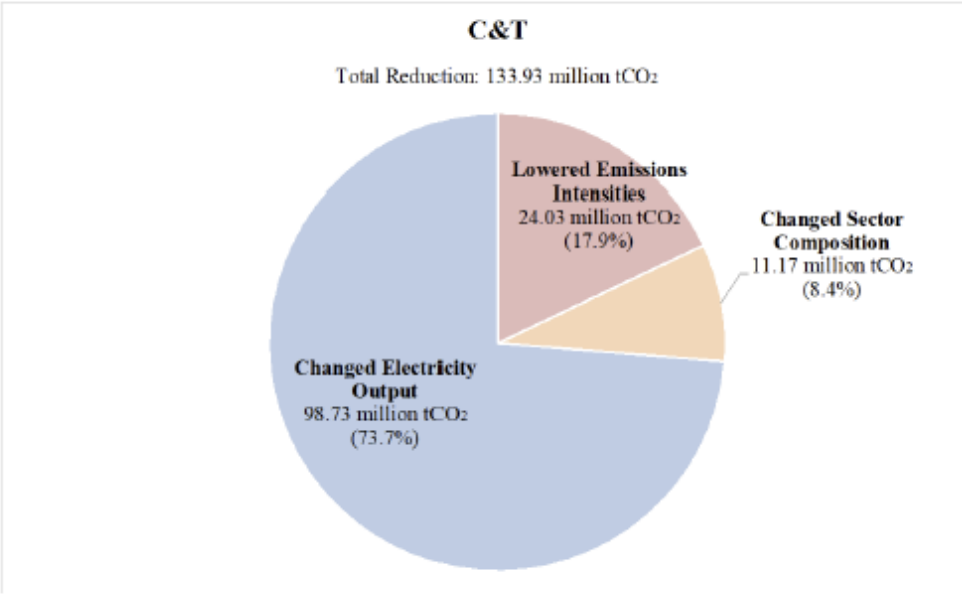
Attractions:

- Lower aggregate cost

Figure 3: TPS and C&T Costs under Varying Policy Stringencies







1. Transition to a Mass-Based System

Attractions:

- Lower aggregate cost

Drawbacks:

- Higher output prices → more leakage
- Stringency no longer adjusts with business cycle

Would the transition be administratively simple?

2. Introduction of a Price Collar

Attractions:

- Reduces allowance-price uncertainty
- "Unacceptably" low or high prices can be avoided

Drawback:

- Introduces new source of emissions-quantity uncertainty

Can be implemented via auctioning of allowances

- Some allowances issued free based on benchmarks
- Some sold at auction (auction is marginal supply source)
- Compliance requires $(e - a_1 - a_2) / q < \beta$

  where

  e = emissions (net of secondary market purchases)

  a_1 = allowances received free; a_2 = allowances purchased at auction

  q = output; β = benchmark

3. Include Renewables within the TPS?

Attraction:

- Gives renewables a further boost (their baseline (*e/q*)s will likely be below their benchmarks)

Qualification:

- Overall efficiency impact depends on efficiency of pre-existing renewables regulations

Other important considerations?