

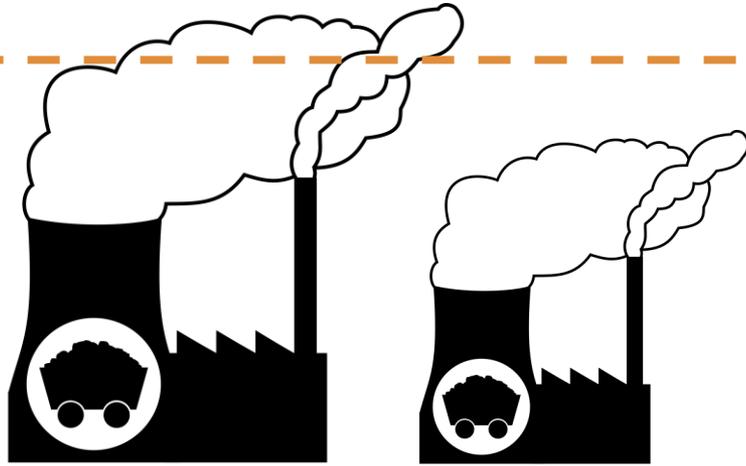
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# **MASS-BASED PLAN CONSIDERATIONS: ALLOWANCE DISTRIBUTION**

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NEITF TAC on Clean Energy Sources  
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# Allowances are at the center of mass-based compliance plans



Mass cap

Under a mass-based plan, each state has a set budget of emission allowances. Affected units demonstrate compliance by retiring sufficient allowances to cover their emissions.

States can determine how allowances will be distributed initially. Allowances have monetary value and can be traded, bought, sold, and/or banked.

# The initial distribution of allowances is a key planning decision for states

How allowances are distributed will not generally impact emissions outcome, but will impact other metrics:

→ Compliance cost

→ Investment certainty

→ Consumer impact

→ Energy system outcomes

Luckily, states can manage these outcomes through allowance allocation.



# The approach in the model rule is unlikely to deliver optimal outcomes for Nevada

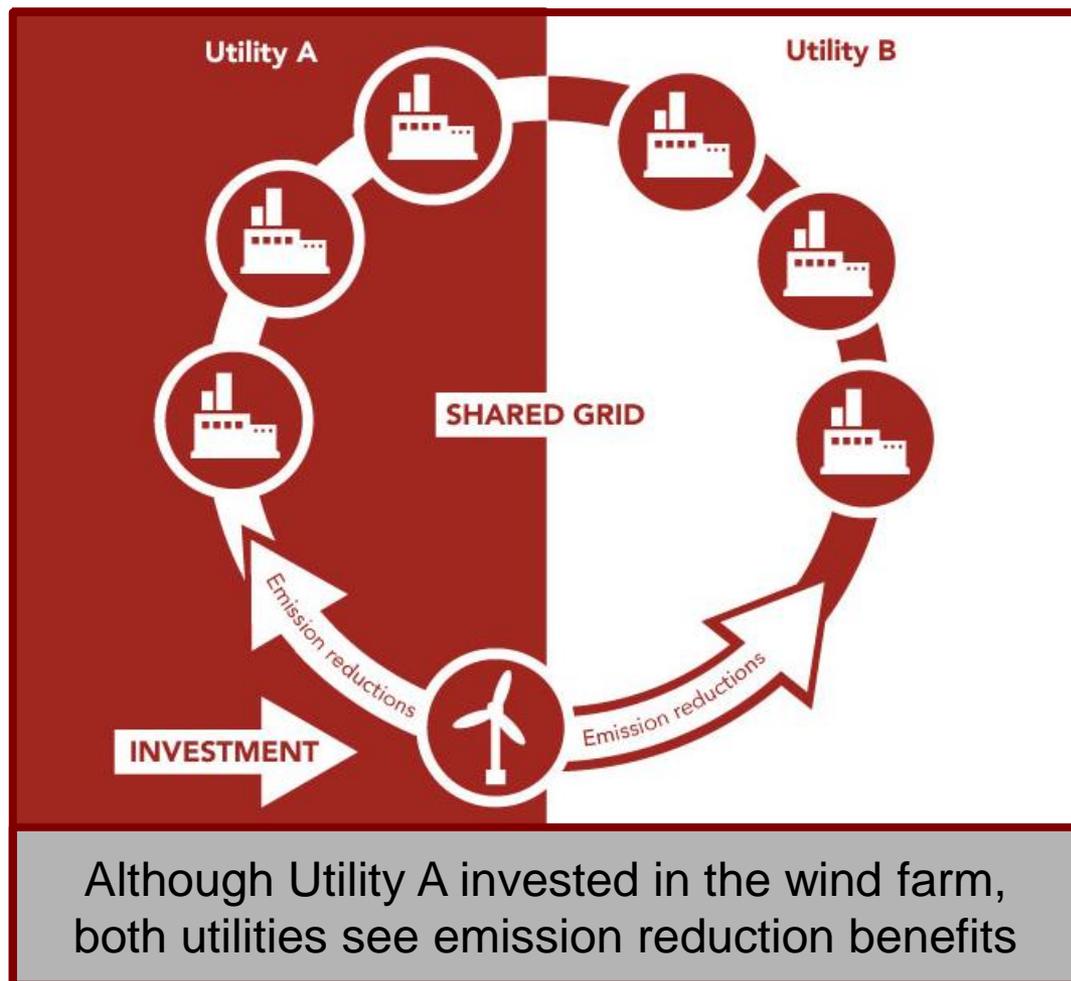
- One option is to allocate allowances to affected units proportional to their historical generation or emission levels.
  - This is the approach chosen for the *proposed* model rules
- However, this approach will not allow a number of **cost-effective** technologies such as RE and EE to compete equally to provide emission reductions – leading to an increase in cost.

States need not follow the model rules, and can instead develop an approach that meets state-specific needs.



# Allocation based on historical generation prevents equal market competition

- Limits competition in several ways:
  - Introduces “tragedy of the commons” (*right*)
  - Leads to low trading activity
  - Does not reward or incentivize progress
  - Fails to address existing market barriers



# Nevada has many approaches to consider, plus decisions within each option

Allocation Method	Description
<b>Historical (“grandfathering”)</b>	Allowances are distributed to affected units based on generation or emissions in a prior baseline period.
<b>Updating output- or performance-based</b>	Allowances are distributed to affected units, non-affected generators, and/or EE providers on the basis of electricity generated or saved; can be adjusted relative to avoided emissions or fuel consumed.
<b>Auction</b>	The state holds an auction to sell allowances to affected units, and the state can determine how to use auction revenue.
<b>Auction by load-serving entities (LSEs)</b>	The state distributes allowances to LSEs for auction, and the PUC can direct the revenue toward programs or activities that reduce ratepayer impacts.

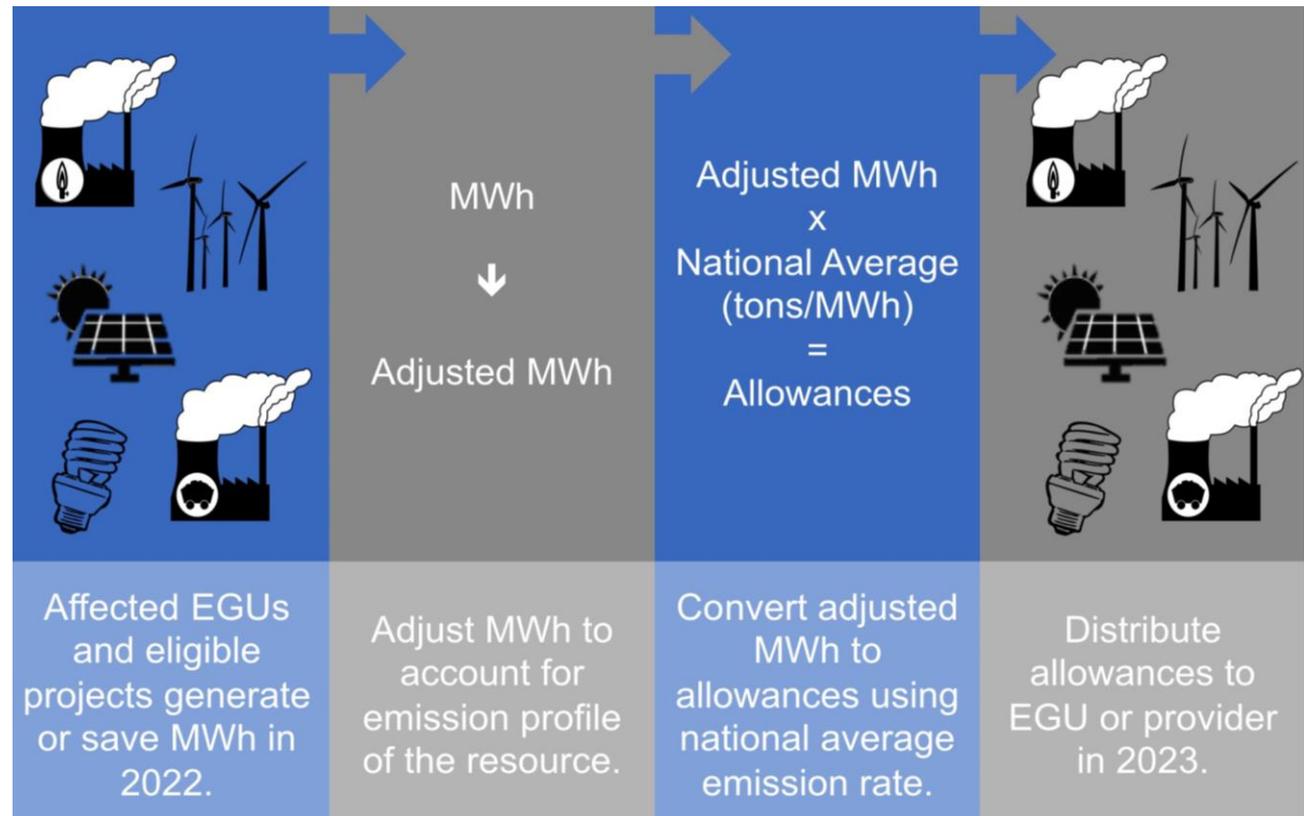
**These are the primary options but not the only methods. States can also choose a hybrid approach.**



# AEE has developed a performance-based approach for states to consider

This is not the only approach that can work, but has several benefits:

- Technologies compete on price and performance
- Clear signal for utilities, project providers
- Rewards action
- Removes market barriers
- Can be used to address leakage



See attached documents for more information on this and other mass-based allocation options.

# Important considerations when weighing different options



Does the approach help achieve the least-cost path to compliance? What is the impact on ratepayers?



Will the state include set-asides for activities that advance a specific goal or purpose?



How will the state meet the requirement to address leakage to new units?



Will the approach enable all eligible technologies to contribute to compliance?



Are there other state objectives or circumstances to consider, e.g., clean energy goals, ratepayer impacts, market structure, interstate effects?



# Questions?

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