

How America's Climate Security Act Allocates Emission Allowances

In America's Climate Security Act, each year's emissions cap (aka, Emission Allowance Account) is made up of billions of individual permits, or allowances. Each allowance permits the bearer to emit one carbon dioxide equivalent. A carbon dioxide equivalent is the amount of a regulated greenhouse gas that makes the same contribution to global warming as one metric ton of carbon dioxide.

At the beginning of each calendar year, EPA divides up and distributes at no charge the allowances comprising that year's Emission Allowance Account, in the ways specified in the bill. The initial holders of emission allowances then trade and auction those allowances over the course of the year. At the end of each year, each owner of a covered facility must submit to EPA a number of allowances that equals the number of carbon dioxide equivalents emitted by that facility in that calendar year.

The bill specifies a gradual change, over the first 25 capped years of the program, in both the identity of the entities that receive free allowances and in the percentage of the annual account that the various entities receive. The table below provides two snapshots of the allocation. The first snapshot is in 2012, which is the first capped year of the program. The second snapshot is in 2036, when the allocation has finished evolving into the form that it will retain through 2050, the final capped year of the program.

There are two important variables that the table does not depict. First, the 2036 Emissions Allowance Account will contain only 56% of the allowances that the 2012 Account will contain. The increasing scarcity of allowances is the mechanism that lowers aggregate emissions. Second, the total dollar value of the 2036 Account is projected, notwithstanding the declining number of allowances, to be five times the total dollar value of the 2012 Account, due to the increasing market value of an allowance.

2012 EMISSION ALLOWANCE ACCOUNT		2036 EMISSION ALLOWANCE ACCOUNT	
Recipient	%	Recipient	%
REGULATED EMITTERS:			
Owners of Power Plants	20	Owners of Power Plants	0
Owners of Manufacturing Plants	20	Owners of Manufacturing Plants	0
Companies That Took Early Action	5	Companies That Took Early Action	0
Companies That Sequester CO ₂	4	Companies That Sequester CO ₂	0
ENTITIES OTHER THAN REGULATED EMITTERS:			
Electricity Consumers (through LSEs)	10	Electricity Consumers (through LSEs)	10
States	8.5	States	8.5
U.S. Farmers and Foresters	5	U.S. Farmers and Foresters	5
International Forest Protection	3	International Forest Protection	3
Tribal Governments	0.5	Tribal Governments	0.5
Climate Change Credit Corp. (Auction)	24	Climate Change Credit Corp. (Auction)	73
Recipient of Auction Proceeds	%	Recipient of Auction Proceeds	%
Climate-Friendly Technology	52.25	Climate-Friendly Technology	52.25
Low-Income U.S. Energy Consumers	19	Low-Income U.S. Energy Consumers	19
Wildlife Adaptation	19	Wildlife Adaptation	19
Climate Change&Nat'l Security Prog.	5	Climate Change&Nat'l Security Prog.	5
Worker Training Program	4.75	Worker Training Program	4.75
TOTAL	100	TOTAL	100
TOTAL	100	TOTAL	100