

TRACKING SYSTEMS IN THE CLEAN POWER PLAN



Tracking systems provide the foundation for a smoothly operating trading market. They are used by market participants to track the use, trading, banking, and retirement of tradable assets. In trading programs under the Clean Power Plan, tracking systems will be used to track emission reduction credits (ERCs) in rate-based programs and allowances in mass-based programs.

HOW IS A TRACKING SYSTEM USED AND WHY IS IT NEEDED?

Market participants can buy or sell emission reduction credits (ERCs) or allowances directly from each other or through authorized third-party brokers in electronic transactions tracked with registry software.¹ These transactions rely on individual accounts used to hold or trade ERCs or allowances. There are two types of accounts in most air quality trading programs—compliance and general use accounts. Compliance accounts are used by regulated entities to hold emission credits used to meet their emission limits. General accounts may be opened by regulated entities or other people, companies, or entities that are authorized to participate in the market to buy and sell credits or allowances. Entities that generate ERCs or allowances (e.g. renewable electricity generators) must open general accounts to receive their allotted credits, which they can then use to participate in the market with regulated entities.

The use of a centralized tracking system maintains program integrity by ensuring credits or allowances in the program correspond to one unit of emitted carbon dioxide, which is reported separately to the U.S. Environmental Protection Agency's (EPA) Emissions Collection and Monitoring Plan System. Every credit or allowance

has a unique serial number so it can be tracked from the time it was created until it is turned in for compliance or retired, thus avoiding the potential that a credit or allowance is used twice—often called double counting.² Regulators can review and track regulated entities' emissions and overall program compliance by ensuring entities hold and surrender credits or allowances commensurate with their emissions.

A properly managed registry has additional benefits. The public may be given access to certain registry information to increase program transparency. Centralized tracking also minimizes transaction costs and increases transparency for market participants by providing certainty about the availability or status of a given credit or allowance.

HOW DO EXISTING CARBON MARKETS TRACK ALLOWANCES?

The Regional Greenhouse Gas Initiative (RGGI) uses a CO₂ Allowance Tracking System (RGGI COATS) to track the allocation, awarding, and transfer of allowances in its carbon market. The tracking system is designed so each state can separately track compliance within its CO₂ budget. RGGI COATS is administered by a private firm contracted to develop the system. The registry has an online portal that allows registered market participants to conduct transactions. The portal also offers a dozen reports on topics including transaction prices, emissions, and account owners that are available to the general public and not limited to registered market participants.³

Participants in California's cap-and-trade program use the Compliance Instrument Tracking System Service (CITSS). Account holders can track the ownership of

allowances and offsets, and buy and sell allowances online.⁴ CITSS is administered by the Western Climate Initiative, Inc. (WCI) a non-profit corporation formed to provide administrative and technical services for state and provincial greenhouse gas emission programs. WCI Inc. contracts with a separate technology firm to host the system and provide functionality as the program changes and grows beyond California.⁵

WHAT DOES THE CLEAN POWER PLAN REQUIRE FOR TRACKING ALLOWANCES?

The Clean Power Plan requires states with either rate-based or mass-based trading plans to use a tracking system to ensure credits or allowances are tracked from issuance through submission to compliance. States can use an EPA-approved joint tracking system administered by two or more states, EPA-approved interoperable system, or EPA-administered tracking system. Tracking systems must electronically record issuance, transfer, surrender for compliance, and retirement of ERCs or allowances. Public access must be available about eligible allowances, set aside allowances, and certain reports, including evaluation, monitoring, and verification plans, monitoring and verification reports, and independent verifier verification reports.

The proposed federal plan and draft model rules provide for tracking systems. EPA proposes that the rate-based and mass-based federal trading program use the EPA's existing Allowance Tracking and Compliance System (ATCS) for both compliance and general accounts. Relevant information, including the record of ownership of units, dates of issuance, transfers, buyer and seller information, serial numbers, emissions data, and compliance information would be publicly available on EPA's website. However, price information would not be available through ATCS, as EPA believes that information is better obtained and disseminated by brokers. In the case of a rate-based trading program, EPA also proposes a complementary process to track the issuance

of ERCs that provides transparency for renewable energy and other project processes.

WHAT OTHER OPTIONS EXIST FOR STATES?

A state may use tracking systems other than ATCS, and faces similar choices whether it wants to allow electrical generating units to trade within the state or under specific bilateral or multilateral trading partnerships. A state may design a new tracking system that meets the specifications of the Clean Power Plan and is approved by EPA as part of the submitted state plan. It may also use an existing system that is EPA-approved, and in this case no additional approval of the system is necessary for regulated entities in the state to participate in interstate trading.

ENDNOTES

- 1 "Allowance Markets," Environmental Protection Agency, last modified November 17, 2015, <http://www.epa.gov/airmarkets/allowance-markets>.
- 2 Ibid.
- 3 Regional Greenhouse Gas Initiative, Inc., *Fact Sheet: RGGI CO2 Allowance Tracking System (RGGI COATS)* (New York, NY: Regional Greenhouse Gas Initiative, Inc., 2012), https://www.rggi.org/docs/RGGI_COATS_in_Brief.pdf.
- 4 "Welcome to WCI CITSS," Western Climate Initiative Inc., accessed January 26, 2016, <https://www.wci-citss.org>.
- 5 Western Climate Initiative, Inc., *Interim Hosting and Jurisdiction Functionality for the Compliance Instrument Tracking System Service (CITSS)* (Sacramento, CA: Western Climate Initiative, Inc., 2012), http://www.wci-inc.org/docs/SRA_Contract_Posting_with_Attachments_061812.pdf.



The Center for Climate and Energy Solutions (C2ES) is an independent, nonprofit, nonpartisan organization promoting strong policy and action to address our climate and energy challenges. The C2ES Solutions Forum brings together businesses, states, and cities to expand clean energy, reduce greenhouse gas emissions, and strengthen resilience to climate change.