The New York Times

DECEMBER 17, 2010

State Regulators Approve the Nation's Biggest Cap-And-Trade Plan

BY DEBRA KAHN OF CLIMATEWIRE

SACRAMENTO, Calif. -- California regulators voted yesterday to approve the most comprehensive U.S. cap yet on greenhouse gases and create the biggest carbon market in the country.

The California Air Resources Board voted 9-1 to approve the state's cap-and-trade plan, the keystone of its effort to reduce emissions to 1990 levels by 2020 under A.B. 32 and the nation's first economywide, market-based greenhouse gas scheme in the absence of federal action. California has the world's eighth-largest economy and the highest gross state product in the United States, at $1.7 trillion in 2009.

The trading scheme will reduce emissions from power plants, oil and gas refineries, steel manufacturers and a host of other heavy industries that emit more than 25,000 tons of CO_2 per year. All emitters will start out receiving enough free permits to cover the majority of their emissions, but will gradually have to buy more, via quarterly auctions that will begin in February 2012. The system will cover 85 percent of the state's industrial emissions by the time it ends in 2020 (ClimateWire, Nov. 1).

Financial analysts have estimated the 2.7 billion allowances will be worth $15-$60 by 2020; a forward trade conducted last month put the price at $11.50 per ton (ClimateWire, Nov .19).

Gov. Arnold Schwarzenegger (R) paid a visit to yesterday's 10-hour proceedings to point out voters' support of A.B. 32. Last month they turned down a challenge via ballot initiative: Proposition 23, sponsored by Valero Energy Corp. and Tesoro Corp. It would have postponed the carbon regulations until unemployment fell to 5.5 percent for four consecutive quarters.

"It just shows to you that a huge majority of Californians are big believers in A.B. 32," he said. "And they're big believers not just in global climate change -- let's be honest, not everyone believes in that. It's also about our health. It is about 19,000 people that die every year because of pollution-related illnesses. Every sixth child in the Central Valley goes to school with an inhaler. We can do much better than that."

ARB Chairwoman Mary Nichols said more work remained to be done over the next year, including calculating allowance levels for emitters, creating more offsets and determining whether biomass emissions should be covered under the cap. "I think what we've got is a very good start that needs a bit more work before it hits the road," she said.

Allowance allocations, revenue recipients remain unclear

The approved regulations refined the state's approach to handing out allowances to utilities, but final figures remain to be determined. Through a series of meetings with utilities, known as the Joint Utilities Group, regulators decided to calculate the number of allowances based on the expected financial burden to ratepayers. They will take into account both historical emissions and anticipated sales, in order to balance the utilities' actual emissions burden with the desire to promote energy efficiency and other low-carbon improvements that cost money.

"The allocations will be tailored to where the ratepayer burden lies," said Michael Gibbs, California EPA's assistant secretary for climate change. Although utilities will receive the allowances for free, they will turn them back over to the state to be auctioned off directly to the electricity generators (in some cases the utilities themselves) to create revenue.

ARB will take the next several months to adjust its estimates and will issue a report in July 2011.

Investor-owned utilities gave the plan tentative praise but warned that even more work is needed to protect customers from high allowance prices. ARB needs to come up with a backstop strategy to lower prices in the event that allowances are more expensive than expected, said Kate Beardsley of Pacific Gas & Electric Co. Utility representatives also objected to giving authority over their profits to the California Public Utilities Commission (PUC).

“We want the ability to work with the PUC on the best way to return allowance value,” Beardsley said.

Also undecided is how any revenue from the non-utility auctions will be distributed. Schwarzenegger, board members and an economic advisory committee have stressed the importance of giving proceeds back to electricity ratepayers who will be affected by higher rates -- even going so far as to produce a report debating the benefits of tax cuts versus a lump sum payment to households (ClimateWire, Jan. 12). But the agency actually has no power to disburse the money.

“We do not have the authority to determine how the money should be spent, so I guess we’ve gone out on a limb somewhat by allocating the proceeds,” Nichols conceded.

Instead, the state legislature will address the issue at some later date, with no guarantee it can even pass a bill. That’s what turned board member John Telles, a cardiologist from Fresno, against the entire regulation.

“This is a regressive tax on the most economically disadvantaged communities,” he said of the plan’s expected effect on electricity rates. “I don’t think we can pass something that doesn’t in very strong language protect the people. This is a moral issue that’s beyond the issue of greenhouse gas reductions.” He was the board’s sole ‘no’ vote.

Forest controversies smolder

Dozens of witnesses -- and several board members -- voiced opposition to the provision that would make clearcutting eligible to receive offset credits for improved forest management.

The debate has split environmental groups, with the Nature Conservancy backing timber companies’ and offset certifiers’ position that the protocol does not encourage clearcutting.

Brian Nowicki, California climate policy director for the Center for Biological Diversity, urged ARB to remove references to “even-aged management,” a term that within California means clearing adjacent areas up to 40 acres.

“Forest clearcutting being included as part of the forest protocols does greatly increase the possibilities for gaming and for the development of nonadditional credits,” he said. “There is definitely the concern that there are going to be incentives given for continuing business-as-usual. ... It goes to the heart of the additionality of this protocol.”

Nichols said that as a practical matter, the board’s only concern should be whether carbon dioxide emissions would be reduced under the protocol.

“If they’re not allowed to get offsets, they’ll keep doing what they’re doing anyway,” she said, referring to Sierra Pacific Industries, the major timber company operating in the Sierra Nevada Mountains. “I was and am extremely sympathetic to the views of people who live in and around the forest and don’t like the practice of clearcutting at all, but I think we at this moment are not in a position to craft changes to the protocol that would accomplish our goal in a way that has credibility from the forestry perspective.”

Another potentially thorny forest issue also made it through. The plan would exempt biomass power plants from accounting for their greenhouse gas emissions, under the theory that excess wood should at least be used to generate electricity rather than being burned outright.

Representatives of the biomass industry said the provision wouldn’t lead to additional trees being felled for fuel. “There is no facility in California that uses anything other than wood waste from forest projects,” said California Biomass Energy Alliance spokeswoman Julie Malinowski-Ball. “I don’t know where that’s going on elsewhere in the U.S., but California is probably the best example of biomass done right.”