PointCarbon

Early California offset demand may outweigh supply

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Demand for offsets for compliance with California carbon caps could total 10 million credits per year.

The California Air Resources Board (Carb), the state's environmental regulator, is likely to allow 122 million offsets for use in the state's future programme between 2012 and 2020, according to Element Markets.

The director of research at the US project developer and carbon credit aggregator said the current supply of high-quality carbon credits in the US pre-compliance and voluntary carbon market falls short of the projected demand.

“If you compare that to what’s currently available from high-quality registries that we think have some likelihood of qualifying (under Carb standards), you can see that around 6.1 million high quality offsets have been issued under the Climate Action Reserve (CAR) and the Voluntary Carbon Standard (VCS),” said Gauri Patankar.

She added that another 4.7 million offsets may still come to market before the programme starts.

“If we have a federal programme, the demand will far exceed the 10 million, but if we just have a state programme, we will still see this level of demand for these offsets,” she said.

Today’s market

She said CAR offsets were currently trading at the $5.25 range for the vintage 2009 credits, down from previous months on the back of uncertainty over federal legislation.

Projects designed under CAR guidelines have been expected to generate carbon credits that can be used in California's future carbon market.

“But we note that the supply of credits is currently ramping up,” she said. “Currently there are 161 projects in CAR, and this number will likely increase as new protocols such as (ozone depleting substances) project types start coming in,” said Patankar.

VCS credits are currently trading at a discount to CAR credits, she noted.

“We see prices in the $2 to $3 range, when just a few months ago they were in the $3 to $5 range,” she said.

Initial allowance prices in California’s cap-and-trade programme will be between $20 and $60.

She said the price of allowances will depend greatly on the final programme design, which has not been finalised.

AB 32

California’s cap-and-trade programme, known as AB 32, is expected to begin trading in 2012 with an allowance auction sometime in mid-2011.

The programme’s goal is to reduce the state’s emissions to 1990 levels by 2020, and it will allow covered entities to use offsets to meet some of their compliance obligations.

The programme has been facing political challenges, with an upcoming state ballot initiative that would halt it until the state's unemployment rate fell to 5.5 per cent, as well as Republican gubernatorial candidates threatening to delay its start date.

But Franz Litz, a senior fellow at the World Resources Institute, said the ballot initiative has so far failed to gain much traction, and said a new Republican governor would have to faceoff against a California legislature that is broadly supportive of AB 32.

"I view AB 32 as being more firmly embedded in California law than was suggested earlier," he said.

Regulators are hopeful, nonetheless, that California's market will operate in conjunction with other states and provinces, but it is unclear how many of those will be ready to participate when the programme begins.

$20-$60

Patankar estimated that allowances prices at the outset of the programme could range from $20 to $60 per tonne.

Regulators have not yet finalised how allowances will be distributed to emitters, but a panel making recommendations to Carb in January recommended said they should sell 100 per cent of the programme's allowances.

This design element would likely lead to higher prices in the early years of the programme.

"I think when Carb goes back to the drawing board, that number will likely get ratcheted down, but that is the original recommendation," Patankar said.

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