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Market praises California’s cap-and-trade design

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California's cap-and-trade system will spur investment in clean energy, market sources said.

On Friday morning, the California Air Resources Board (Carb) released the final draft of a market-based system to cut the state’s emissions to 1990 levels by 2020.

The updated regulations call for the free allocation of allowances to polluters at the programme’s outset; an increase in the percentage of carbon offsets that can be used for compliance; and mechanisms to control the price of carbon.

The draft will open for public comment on Monday, and is expected to be adopted by the board at its meeting on 16-17 December.

“We applaud California for taking a huge step toward the development of a liquid carbon market in California,” said Henrik Hasselknippe, managing director of global product development at the Green Exchange.

“These rules will likely support significant investment decisions on carbon reduction projects and hedging instruments that have been stalled in large part due to market uncertainty,” he said.

Free allowances

Josh Margolis, CEO of CantorCO2e, said the updated design includes a number of key improvements over earlier versions.

“The fact that the programme is going to start with many of the industrials receiving allocations without charge is important,” he said.

“When you hand people an invoice at the starting line, that makes it hard for those businesses to compete,” he said.

But additional changes should be made to the system in light of the weak California economy, Margolis added.

The draft proposes an auction floor price of $10 a tonne, which Carb says is needed to support investment in direct reductions and carbon offset projects.

Margolis criticised the reserve price, claiming the price of carbon should be set by the market, even if that means the allowance price drops below $10 a tonne.

“It doesn’t seem right to structure a programme where the price is artificially high," he said.

Offsets

The draft also doubles the percentage of offsets that can be used for compliance from 4 per cent to 8 per cent, a change Margolis said was encouraging but still inadequate to meet demand.

“There was an insufficient supply at 4 per cent,” he said. “Now it’s a little bit less insufficient.”

Gary Gero, president of the Climate Action Reserve (CAR), said he was encouraged to see four of CAR’s offset protocols adopted into the design document and the increase in the use of offsets.

"The increase to 8 per cent further reinforces the importance of having environmental integrity in the offsets programme," he said.

Activity

“We have already begun to hear from market participants, and we expect to see quick reactions and a significant increase in activity in our programme,” Gero told Point Carbon News Friday.

The Green Exchange’s Hasselknippe said he too is seeing increased interest from market participants and expects the exchange to roll out new financial instruments soon.

“While it will take some time for the market to develop, we could see trading of eligible offset credits pick up over the coming months, and the introduction of new compliance instruments sometime early next year,” he said.

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