

California approves cap-and-trade plan

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California Thursday approved rules for its carbon trading scheme.

The California Air Resources Board (Carb), the state agency that has worked for years designing the programme, voted 9-1 in favour of the plan at a board meeting in Sacramento on Thursday evening.

The plan calls for the state to cut its emissions to 1990 levels by 2020 through a cap-and-trade system that calls for the distribution of 2,675 million allowances over the life of the programme.

California Governor Arnold Schwarzenegger, who addressed the board in person on Thursday, voiced his support after the vote.

"I applaud the air resources board for developing a flexible, phased-in system for producing emissions reductions and for its commitment to working with stakeholders to ensure the final program is cost-effective, job-friendly and achievable," he said.

But Jon Costantino, a senior advisor with law firm Manatt, Phelps & Phillips in Sacramento and a former manager at Carb said there was "still a lot to do".

He said the board punted on decisions about how to divvy up allowances to utilities, what to do with revenue, and how to protect against market manipulation, among other issues.

Market response

"Today Carb did something remarkable. They voted to put a price on carbon," Josh Margolis, CEO of CantorCO2e, an emissions brokerage, said following the vote.

"(Carb Chair) Mary Nichols and her board gave an army of carbon entrepreneurs the license to print carbon credits. And the beneficiaries will be the industries who embrace carbon is an asset that must be managed," he said.

Andrew Pisano, a manager of product development at the Green Exchange, said the company is already seeing significant interest in hedging tools as capital begins to flow into the California market.

"We believe that the rules defined under Carb's proposed regulation would support a liquid market and we look forward to these rules being implemented," he said Thursday.

Similar to other new markets, he anticipates an evolution in products starting with the development of over-the-counter transactions, which brokers have said are already happening in the \$11.50 range.

"Shortly thereafter, relatively simple cash spot contracts will begin trading as the market consolidates around standard products," he said.

Allowances will range in price from \$40 to \$50 between 2012 and 2020, according estimates by Carb.

A recent economic analysis by Next 10, a research group, forecasts that the value of allowances in 2012 will be \$2.5 to 7.5 billion, rising to \$7.3 to 21.9 billion in 2020.

Offset trading

The programme allows the 600 power plants, factories and refineries covered by the system to use

offsets to meet 8 per cent of their compliance obligation between 2012 and 2020 – the equivalent of about 214 million offset credits, according to analysts.

The trading of offsets that can be used for compliance has already been picking up steam, with those credits fetching far more in the market than credits that can be used solely for voluntary purposes.

The compliance credits come from four protocols designed by the Climate Action Reserve (CAR) related to livestock, urban forestry, ozone-depleting substances and forestry.

Climate Reserve Tonnes (CRTS) from those protocols were bid at over \$7.00 a tonne this week, a broker said Thursday, up from the previous week.

Voluntary credits, meanwhile, are only trading in the \$2.50 range, he said.

Updated with the result of the vote and quotes throughout.

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