

POINT CARBON



PREVIEW: California carbon market rules expected to pass key vote

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The California Air Resources Board (ARB) is expected to adopt carbon market regulations on Thursday, a key step in the development of what is predicted to be the world's second largest carbon market.

In 2006, California passed AB 32, a law mandating the state reduce greenhouse gas emissions to 1990 levels by 2020, roughly a 22 percent reduction compared to business as usual forecasts.

The state charged ARB with developing a plan to achieve that goal and its plan includes the creation of the nation's first economy-wide carbon market, with compliance starting in 2013.

Brokers and traders, many of whom have previous experience trading emissions under other systems, began buying and selling allowances and offset forwards in the over the counter market in January.

Trading has been thin but steady, with around 100,000 California carbon allowances (CCAs) trading hands per week on the IntercontinentalExchange (ICE) trading platform this month.

On Thursday, CCAs for delivery in 2013 [were valued](#) at \$19.50/t, market sources said.

Thomson Reuters analysts [expect allowances to average](#) \$36/t over the life of the program.

ALLOWANCE DISTRIBUTION

The state will hold its first allowance auction on August 15.

Nearly two-thirds of allowance permits will be distributed via auction in 2012, rising to 80 percent of all allowances in 2015 when the program expands to include transportation fuels.

Industrial sources will receive the highest percentage of free allowances.

Auctions contain price floor of \$10 per CCA.

OFFSETS

ARB's plan allows covered entities to surrender offsets to cover 8 percent of their limit.

In adopting the regulations on Thursday, ARB will also approve four Climate Action Reserve offset protocols for compliance.

The protocols relate to ozone depleting substances (ODS), agricultural methane, forestry and urban forestry.

Offsets have been slow to trade so far due to concern about liability provisions in ARB's regulations.

Neither ICE nor the Green Exchange have launched contracts for clearing offsets transactions yet, although those contracts are expected.

On Thursday, ODS offsets, the most popular offset type, was valued at \$11.50/t, market sources said.

LAWSUIT

Allowance and offset trading came to a halt in late May when a Superior Court judge said ARB had failed to adequately consider policy alternatives to cap and trade like a carbon tax, and ordered ARB staff to [halt work on the program](#).

An appeals court gave ARB the right to continue implementing the program and the board reviewed and [adopted a more thorough examination](#) of alternative policies, but there is still a chance the appeals court could rule against ARB.

The appeals court ruling in the case isn't expected until next year, a court source said.

BUSINESS CONCERNS

Despite a long public process developing the regulations, many California businesses are still concerned the rules will hurt their bottom lines.

On Tuesday, the AB 32 Implementation Group, a coalition of business and taxpayer groups, said it was concerned the program would hurt California businesses.

"This regulation is going to impose costs on employers that go way beyond what is necessary to achieve the emission reduction goals of AB 32," said Shelly Sullivan, executive director of the group.

"With that being the case, the AB 32 Implementation Group believes more time should be taken to work on outstanding areas of concern," she said.

In public comments, oil company officials have complained that their allowance allocation, set at 90 percent in 2013, is unfairly low.

And officials from out of state utility companies that sell power into California complain that the system ARB plans to use to track ownership of the power will not be accurate.

The vote by the 11-member board will take place Thursday in Sacramento.

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