



FACTBOX – The nuts and bolts of California’s CO2 cap-and-trade program

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SAN FRANCISCO, Nov. 13 (Reuters Point Carbon) – California will hold its first quarterly carbon allowance auction on Nov. 14, a key step in the initiation of its cap-and-trade program.

Following are the details of the trading program, which was launched to help the most populous U.S. state bring its greenhouse gas emissions back down to 1990 levels by 2020, about a 15 percent reduction compared to business-as-usual forecasts.

COVERAGE

The program will begin on Jan. 1, 2013 and initially cover 350 businesses representing 600 facilities.

Covered entities include oil refineries, manufacturers such as cement makers, food processors, and electric utilities.

The first date that those businesses need to surrender allowances to the state government is November 2014, to cover for their 2013 emissions.

In 2015, the program will expand to cover distributors of transportation, natural gas and other fuels.

The emission cap is set in 2013 at about 2 percent below the forecasted levels for 2012 and declines about 2 percent in 2014.

It declines annually by about 3 percent from 2015 to 2020.

The program will cover 85 percent of the state’s economy after the expansion in 2015.

AUCTION

The electronic auction will open at 10:00 Pacific Standard Time on Wednesday and will last three hours.

The state will sell two vintages of allowances at Wednesday's auction – 23.1 million permits that cover 2013 emissions and 39.5 permits that cover 2015 emissions.

2014 vintage allowances will be offered in subsequent auctions.

Allowances, which must be purchased in lots of 1,000 permits at the auction, can be banked for future use.

The first auction has a floor price of \$10 per tonne.

If carbon prices hit \$40 per tonne, the state will release more allowances into the market to quench demand.

The 2013 allowances available at the auction are permits that were given by the state to electric utilities, who must use the revenue from their sale to protect their ratepayers.

The 2015 allowances on offer are being sold by the state and the revenue from those sales will go into a newly established government account.

It is not entirely clear how that money will be used. A decision must be worked out by the state legislature and the governor's office, but by law the funds must be used on programs that help the state further reduce its greenhouse gas emissions.

OFFSETS

The program allows emitters to use offset credits to meet 8 percent of their compliance obligation annually, creating demand for up to 200 million credits over the life of the program.

The credits must be derived from projects approved by the California Air Resources Board (ARB), the program's administrator.

So far the ARB has approved four types of projects developed by the Climate Action Reserve, related to forestry, urban forestry, agricultural methane and ozone depleting substances.

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