History, Focus, Goals and Implementation of California’s AB 32

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Who is ENVIRON International?

- Established in 1982, ENVIRON is an international environmental consulting and engineering firm employing 1,100 people across 62 offices in 16 countries.

- ENVIRON provides scientific, technical and strategic risk management services to address EHS matters and issues related to the development and use of energy and environmental technology.

- Energy-related practice areas include carbon management, air quality, landfill gas, energy efficiency, energy technology and renewable energy.

- Project development arm, CarbonVentures dedicated to development of GHG offset projects.
Presentation Outline

- AB 32 background
- AB 32 motivations
- Key issues laid out in the Market Advisory Committee (MAC) report
- AB 32 implementation challenges
- Implications of AB 32 on national/international policy development
The California Global Warming Solutions Act (AB32), September, 2006

- “Bipartisan” plan
- Phased approach
  - reduction of GHG emissions to 1990 levels by 2020
  - 80% below 1990 levels by 2050
- Allows, but does not mandate cap and trade program
- Framework for action
Executive Orders

- EXECUTIVE ORDER S-3-05 (June 1, 2005): Reduce GHG emissions by 2020 to 1990 levels and to 80 percent below 1990 levels by 2050

- Executive Order S-20-06 (Oct. 18, 2006): sets up Market Advisory Committee to advise on market-based compliance program
  — MAC is advisory only
California’s AB 32:
ARB’s Implementation Timeline

- September 2006: AB 32 signed into legislation
- ARB to monitor and regulate GHG sources
- 2007: Market Advisory, Econ. & Tech Advancement, and EJ Committees formed
- 2008: Publish list of early actions
- 2009: Publish market and regulatory scoping plan
- 2010: Discrete early action measures take effect
- 2011: Major rulemakings complete (GHG limits and emission reduction measures)
- GHG rules and markets (if implemented) fully operative
- 2012: 1990 inventory baseline set, 2020 cap adopted and mandatory reporting
- 2020: Reduce GHG emissions to 80% of 1990 levels
- 2020 Target: ~174 MMT CO₂eq
- 2050: Reduce GHG emissions to 1990 levels

Graph:
- Million Metric Tons (MMT CO₂eq emission)
California’s AB 32: Statewide GHG Emissions Limit

By January 1, 2008

Source: CEC
Motivations Behind AB 32

- Recognition of severity of issue
- Need to “prime” political pump
- Lead Washington; provide framework for national solution
- Demonstrate bipartisan success
Carbon Market Design Underway

- MAC created by Gov. Schwarzenegger; to provide recommendations on market design to California Air Resources Board (CARB)

- MAC issued report June 30

- Key elements
  - strongly support cap and trade
  - include all sectors, six gases
  - allocate first, then auction as much as possible
  - offsets should be permitted and not limited
  - linkages with other markets should be permitted
Rationale Behind MAC Recommendations

- Policy: consensus to recommend most efficient market
  - more reductions, least cost

- Any quantitative or geographic restrictions would be arbitrary

- AB 32 is economy wide effort (unlike RGGI), so must be flexible

- Political: resistance to “politically-driven” issue(s)
  — sense that environmental justice movement, other political
    pressures sought to limit offsets
  — proverbial “nose under the tent” concerns

- Underlying motivation of AB 32 is to create a national, international market
Market Design Complications

- Significant opposition to cap and trade
  - threat to “de-fund” EPA, CARB
  - Shake-up at CARB

- “Environmental justice” issues

- Can California go it alone?
  - California only or limited U.S. system
Growing Concerns about Offsets

- Offset quality standards
  - real, additional, measureable, verifiable, transparent
  - CDM/Gold Standard/VCS level

- Only permit with trading schemes with stringent caps

- Ensure domestic marginal cost sufficiently high to encourage investment (minimum price?)

- Regulate where price signals insufficient (i.e., transportation)
AB 32 and MAC Implications

- National market development
  - Senators Lieberman, Warner effort considered most viable
  - almost certain to contain cap and trade element

- Senator Boxer, Pelosi to date suggest no federal preemption of California law

- AB 32 is most comprehensive of all regional, state efforts
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