

Lessons from California's AB 32 Cap and Trade Market

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AB 32 – California Global Warming Solutions Act of 2006

- Requires reduction in GHG emissions to 1990 levels by 2020, 40% below 1990 levels by 2030, and 80% below 1990 levels by 2050
- Mandatory GHG reporting
- Low Carbon Fuel Standard (LCFS)
- Renewable Portfolio Standard (RPS)
- Cap and Trade (adopted December 2010)
 - 2% yearly reduction in allowances in 2015; 3% yearly reduction in allowances in 2016-2020

California Cap-and-Trade System

- Statewide market program that monetizes reductions of GHGs through a declining statewide cap
- Covers electricity generators, listed industrial facilities with > 25,000 mtCO₂e/year
- Covered sources must obtain and surrender GHG allowances equal to their GHG emissions from each three-year compliance period
- Sources of allowances
 - Free allocation by the state
 - State-run quarterly auctions
- Offsets (may satisfy up to 8% of compliance obligation)
 - Programs must be verified and approved by the State of California
 - Approved programs to date = U.S./urban forests, livestock, ozone depleting substances, mine methane capture, rice cultivation

Key Aspects of California Cap-and-Trade System

- Compliance-related allowance market places a value on GHG emissions using a standardized metric (mtCO₂e)
- Sets a unified regulatory standard for eligibility of “buyers”
- Emerging voluntary offset markets beginning to monetize direct mitigation of CO₂
 - Offset programs = direct investment in GHG reduction and mitigation
 - Incentivizes new offset programs invested in direct environmental mitigation and restoration (forests), if they qualify...
- Establishes rigorous and science-driven standards for verification of emissions reductions and offsets creditable in the market
- Allowance auction proceeds go to state for (theoretical) use in funding GHG mitigation and “related projects”

Challenges in Learning From a ~~Regional~~ State GHG Market

- Western Climate Initiative – the economy matters
- Offset programs currently limited and must meet rigorous verification requirements to be approved by CA
- Lessons from a mandatory cap and trade market may be limited for a voluntary system
- Environmental mitigation markets do better when supported by an enforceable regulatory requirement for the mitigation
- California’s “money problem” – AB 32 market has become disconnected from actual environmental mitigation

Potential Obstacles to the TCX

- Unclear whether TCX can create enough financial incentives to create a robust voluntary market in the absence of mandatory regulatory requirements
- Limited number of willing “sellers” in market may make it more difficult to create and maintain a lasting market
- Stakeholders may look to local/state/federal government to directly fund the ecological protections and bypass any market
- Need to verify environmental mitigation measures are effective and closely linked to investment by “buyers”
- May be especially vulnerable to economic downturns at all levels