Emissions Allowance Trading Under AB 32

James Bushnell

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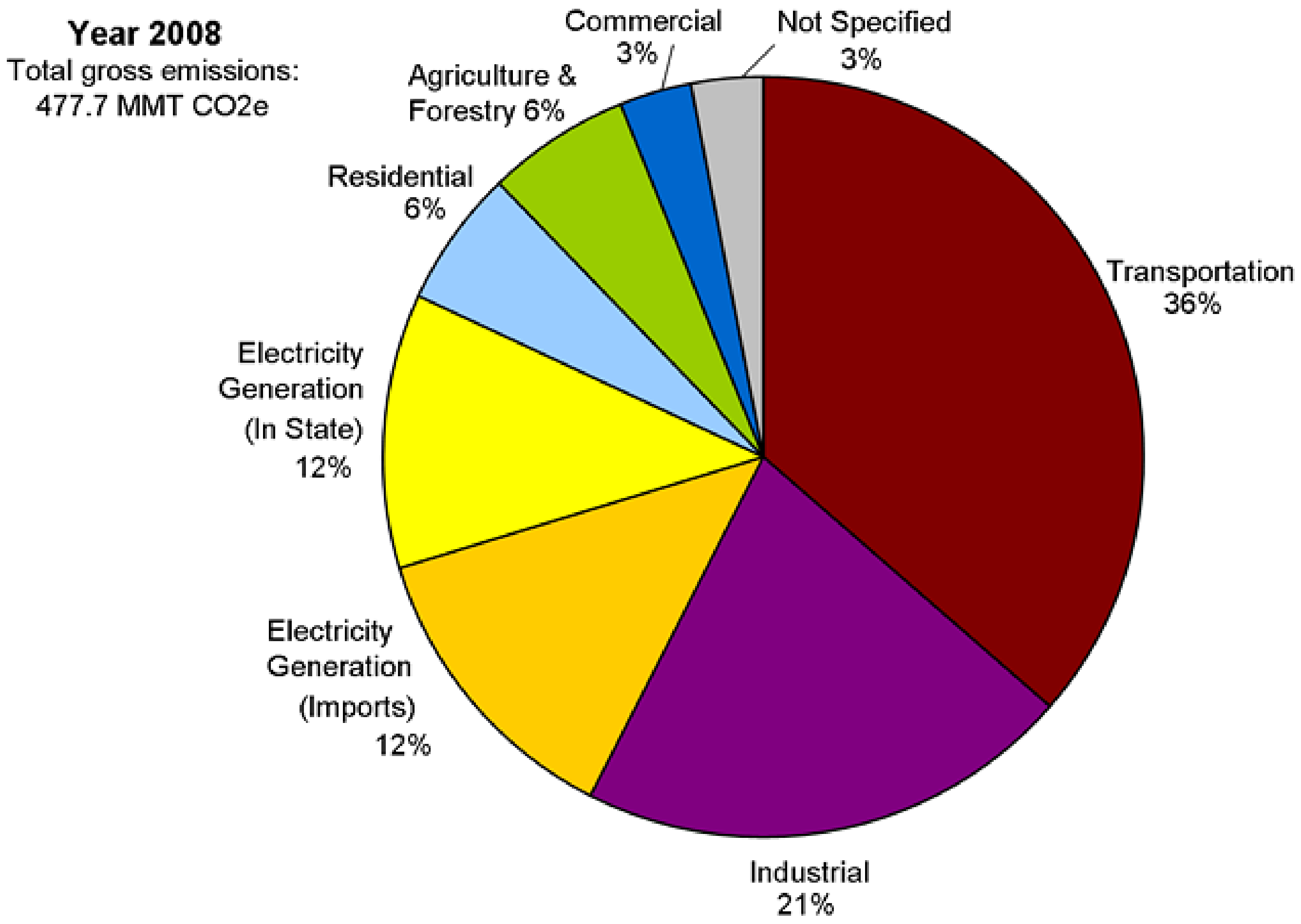
University of California Energy Institute

AB 32 Targets

- AB 32 sets a legislated target of reaching 1990 levels of GHG emissions by 2020 (economy wide)
  - A subset of those emissions will be subject to a cap-and-trade system.
- Starting in 2013, stationary sources emitting at least 25,000 metric tons of CO_2e per year will be covered under the cap
  - Large industrial sources, Electricity generation and importers of electricity
  - About 150 mmTons/year
- Beginning in 2015, combustion from smaller emission sources will be captured by assessing the obligation on fuel suppliers
  - Transportation fuels,Residential and commercial use of natural gas
  - Expands cap to about 375 mmTons/year

Distribution of Emissions Across Sectors



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Major Design Issues

- Strategic compliance behaviors
  - Leakage, resource shuffling, default emissions rates
- Holding limits
  - System of accounts, with differing levels of limits associated with them
- Market oversight, Information Release, Linkage with Quebec
- Price Floor and Cap linked to an allowance reserve
- Compliance timing

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Electricity and Cap-and-Trade

- Electric sector will dominate phase I
  - Likely to be the source of most of the reductions overall
- Treatment of imports a major factor
  - Imports account for about half of sector emissions
  - Will be regulated under a "first-deliverer" mechanism
  - Potentially large, non-transparent, volatility associated with those emissions

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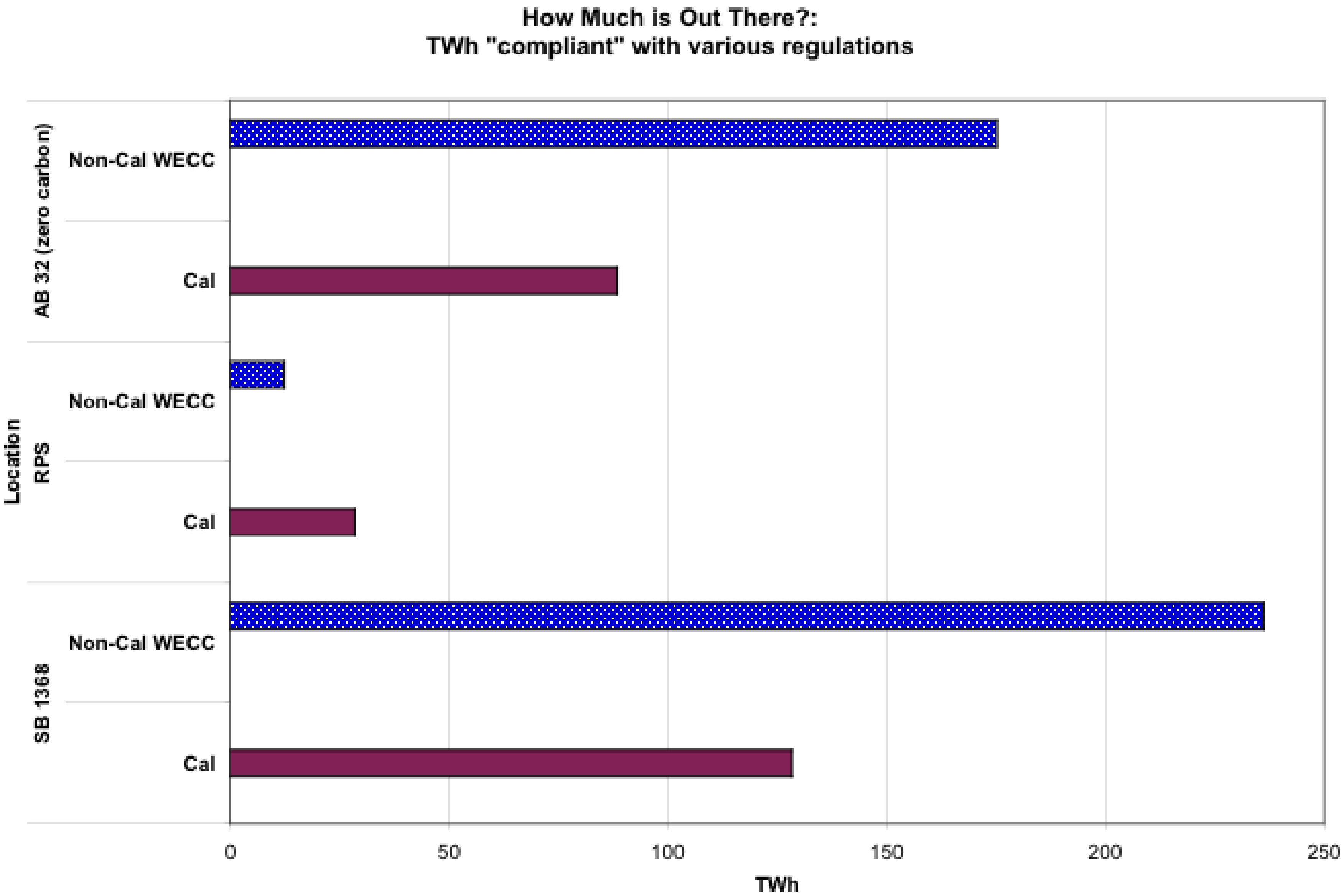

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Potential Impacts on CAISO Markets

- Changes in mix and volume of “unspecified” power
  - Implications for market volume?, RA?, anything to do with interties?
- Increased monitoring and compliance responsibilities
- Uncertainty surrounding provisions to prevent strategic compliance behaviors

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