

RENEWABLE ENERGY ALERT

CALIFORNIA AIR RESOURCES BOARD APPROVES SCOPING PLAN TO FRAME IMPLEMENTATION OF CAP AND TRADE PROGRAM

On December 11, 2008, the California Air Resources Board (CARB) approved a scoping plan that provides a framework for implementing a cap and trade program for the electricity generation sector pursuant to Assembly Bill 32 (AB 32), the Global Warming Solutions Act of 2006. AB 32 requires California to reduce its greenhouse gas emissions to 1990 levels by 2020, reflecting a 30 percent reduction from business-as-usual emissions. The scoping plan provides direction for CARB to develop regulations over the next two years to implement the cap and trade program.

CAP AND TRADE PROGRAM COVERING THE ELECTRICITY GENERATION SECTOR TO BE ESTABLISHED BY 2012

Pursuant to AB 32, compliance obligations under California's proposed cap and trade program go into effect in 2012. Through the cap and trade and policies that accompany it, the scoping plan places restrictions upon 85 percent of greenhouse gas emissions throughout California's economy. The scoping plan subjects the electricity generation sector, including electricity imports from out-of-state generation, to an emissions cap beginning in the 2012 compliance year, phasing additional sectors into the program by 2015. Based on the requirements of AB 32, regulations to implement the cap and trade program need to be developed by January 1, 2011.

CAP AND TRADE PROGRAM TO BE LINKED WITH WESTERN CLIMATE INITIATIVE

A central feature of the scoping plan is that the California cap and trade program will ultimately link to Western Climate Initiative (WCI) partner programs. The WCI consists of four Canadian provinces and seven U.S. states, including California, that are committed to achieving emissions reductions. Individual WCI jurisdiction emissions reduction goals vary, and details on the distribution and auction of emissions allowances will be established by each individual WCI jurisdiction. Linking to WCI regional system will permit emissions allowances to be traded across state and provincial boundaries, potentially providing market liquidity and more stable carbon prices throughout the region.

OPPORTUNITY FOR STAKEHOLDER INPUT DURING THE CAP AND TRADE RULEMAKING PROCESS

CARB will establish a formal rulemaking process to design a cap and trade regulatory program. The rulemaking will develop key elements of the cap and trade, including determining the method used for distributing emissions allowances, appropriating revenues raised through auctions and establishing the rules for the use of emissions offsets. Based on stakeholder input, CARB may modify proposed measures to reflect certain factors, including updated technical and cost-effectiveness information before adopting the final regulatory program. The rulemaking will provide stakeholders with substantial opportunities to shape the regulatory program, including formal interaction and informal interaction with CARB staff through working groups.

INCREASED RENEWABLE ENERGY DEPLOYMENT CENTRAL TO CALIFORNIA EMISSIONS REDUCTIONS PLAN

While an overall limit on greenhouse gas emissions for most of the California economy is established by the scoping plan, the plan recognizes that complementary policy strategies are essential to achieve emissions reductions. To this end, the scoping plan keeps renewable energy development a priority and states that a renewable energy mix of 33 percent by 2020 is key to California meeting its desired emissions reductions. In calculating emissions reductions necessary to meet AB 32's standard, the scoping plan assumes that emissions will be avoided by increasing the deployment of renewable energy to 33 percent by 2020. CARB also recommends the installation of 3,000 megawatts of solar-electric capacity under California's existing solar incentive programs as a mechanism to meet the emissions reductions goal.

California's current renewable portfolio standard (RPS) requires that 20 percent of the state's retail electric load be met by renewable generation by 2010. Last month, Governor Schwarzenegger issued an executive order calling for a 33 percent RPS by 2020, and legislation is expected in the next session to codify that standard. The scoping plan identifies prerequisites to meeting such a standard, including improvement of the state's transmission infrastructure and reduction of the complexity and cost faced by renewable energy developers. CARB will work closely with California energy agencies to ensure the cap and trade program is consistent with the state's energy policy.

The rulemaking implementing the scoping plan will provide stakeholders a unique opportunity to influence the development of cap and trade rules that will impact the cost of fossil fuel generation and increase the competitiveness of renewable fuel sources in California. The market price of emissions allowances will provide incentives for the market to find new ways to reduce emissions, including increased deployment of renewable energy. The CARB scoping plan, combined with a more aggressive RPS approach taken by the governor, should go a long way to increasing the spark spread difference between fossil fuel and renewable energy generation in California, thus making renewable energy a viable and profitable fuel choice.

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