

Implementing California's AB 32: Setting the Pace for the Nation

**Presentation to the
Economic and Allocation Advisory
Committee
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California's Leadership

- California's Pavley Clean Car standards were the first vehicle greenhouse gas emission standards in the country
 - Paved the way for the new national standards announced by President Obama in May
- AB 32 established the first U.S. economy-wide climate change regulatory program
- California's leadership helps set direction for a national program
- This Committee will play key role as California and the federal government move forward

What is AB 32?

The Global Warming Solutions Act of 2006

- AB 32 sets GHG emission cap for 2020 at 1990 level
 - Points way toward 80% reduction by 2050
 - Empowers Air Resources Board (ARB) to monitor and regulate GHG sources
 - Requires extensive collaboration with other agencies and experts
- ARB adopted the Climate Change Scoping Plan in December 2008
 - Plan provides a framework for achieving AB 32's GHG emissions reduction target

The Climate Change Scoping Plan

- Scoping Plan includes market mechanisms, other regulations, voluntary measures, and fees
 - Cap-and-trade program covers 85% of emissions
 - Complementary measures:
 - Energy efficiency and renewable energy
 - Regional targets for transportation-related emissions
 - Existing laws and policies (e.g., Pavley, LCFS)
 - Fees: public goods charge on water, administrative fee for AB 32 implementation

Scoping Plans Reflects AB 32 Principles

- In developing the Scoping Plan, ARB sought to balance key principles included in AB 32:
 - Minimize costs and maximize total benefits
 - Do not disproportionately impact low-income communities
 - Complement existing air programs to reduce emissions, exposure, and risk
 - Minimize leakage and administrative burden
 - Consider direct, indirect, and cumulative emissions, including localized impacts

Board Direction

Economic and Allocation Advisory Committee

- In the Scoping Plan Resolution adopted in December, the Board directed staff to solicit expert input on:
 - The continuing evaluation of the economic effects of implementing AB 32, including identification of additional models or other economic analysis tools
 - Key questions related to the distribution or auction of allowances and the use of revenue
- The Economic and Allocation Advisory Committee will be the main forum for soliciting this expert input

Board Direction

Economic Analysis of AB 32 Implementation

- The Board directed staff, by December 2009, to examine and report on:
 - estimates of overall costs and savings and the cost-effectiveness of the reductions, including appropriate inclusion of reductions in co-pollutants
 - estimates of the timing of capital investments, annual expenditures to repay those investments, and the resulting cost savings
 - sensitivity of the results to changes in key inputs, including energy price forecasts and estimates of measure costs and savings
 - impacts on small businesses

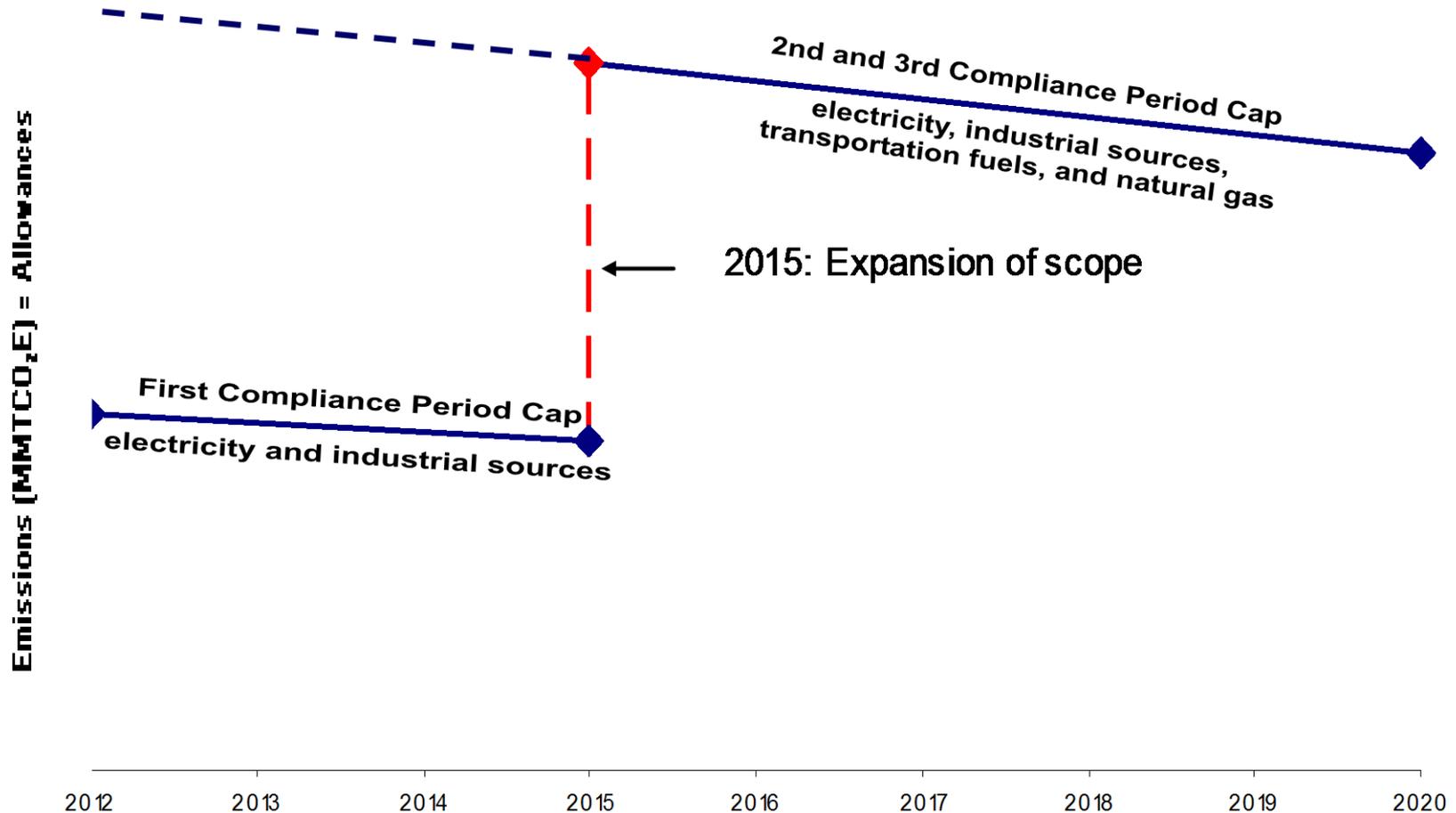
Economic Analysis of Cap-and-Trade Program

- In the Resolution, the Board also directed staff to consider the economic implications of different cap-and-trade program design options:
 - various scenarios for allowance distribution (percent auction vs. free distribution, method of distribution)
 - various scenarios for the use of auction revenue
 - the initial cap level and the rate of decline of the cap over time
 - the potential supply of offsets within and outside California
 - the economic and co-benefit effects of limits on the use of offsets

California Cap-and-Trade Program

- Scoping Plan includes a broad-based cap-and-trade program to provide a limit on emissions
- California's program will link with the programs in other Western Climate Initiative jurisdictions
- Included Sectors
 - 2012: Electricity, including imports, and large industrial sources
 - 2015: expand to include commercial/residential natural gas use and transportation fuels
- The CEC & CPUC provided recommendations on implementation of AB 32 in the energy sector

The California Cap



Cap-and-Trade Program Elements

- Scoping Plan provided direction on a number of key program design elements:
 - Three-year compliance periods
 - 100% auction of allowances a worthwhile goal
 - Limited use of offsets, balancing need for low-cost reduction options with policy goal of achieving reductions from sources covered by the program
- Scoping Plan discusses a wide variety of possible uses of allowances and revenues
- Complementary measures included in Plan to help reduce market barriers and spur innovation

California Environmental Protection Agency

 **Air Resources Board**

More Information and Contacts

ARB's Climate Change Website:

<http://www.arb.ca.gov/climatechange>

California's Climate Change Website:

<http://climatechange.ca.gov/>

ARB's Cap-and-Trade Web Site

<http://www.arb.ca.gov/cc/capandtrade/capandtrade.htm>

Western Climate Initiative

<http://www.westernclimateinitiative.org>