



Cleaner Air Partnership Quarterly Meeting

Friday, December 3, 2010

Downey Brand

621 Capitol Mall, 18th Floor, Sacramento, CA

Meeting Summary

Participants

See below (39)

Welcome

Tom Stallard introduced the group and gave thanks to Teichert, Union Pacific and Downey Brand for their sponsorship of the meeting. He noted the day's subject was timely as the California Air Resources Board will be implementing a Cap and Trade policy January 1, 2012.

Following self-introductions by meeting participants, Tom introduced the presenters:

- "Cap and Trade 101" - Jamie Fine, an Economist with the Environmental Defense Fund;
- CARB Cap and Trade Proposal Overview - Brieanne Aguila, California Air Resources Board; and
- Preparation for Implementation of Cap and Trade, a User's Perspective - Bill Westerfield, SMUD.

Presentations

Highlights from each of the presentations include:

Jamie Fine, Environmental Defense Fund:

- The European Union provides an example of a well-functioning Cap and Trade program, where 26 countries are participating. Additionally, the Acid Rain Program of the 1990 Clean Air Act in the northeast offers another example. This program was a huge success, seeing faster results and lower costs than predicted.
- AB32 and the upcoming Cap and Trade program will be first economy-wide cap, vs. a by-sector cap such as continuous emissions monitors on smokestacks.
- The California Cap and Trade program is only a 9 year program, ending in 2020. There is hope for a federal program to be in place by this time.
- Cap and Trade is only one of 70 measures to reduce emissions.
- To reach the goal of 1990 emissions levels by the year 2020, the AB 32 trajectory originally predicted a 30% reduction from the business as usual (BAU) baseline, but adjusted for the current economy, a 20-25% reduction from BAU is necessary.
- Transportation, Electricity, and Industry, are the major sectors that are obliged to regulatory monitoring within the Cap and Trade program.
- Sectors not covered by Cap and Trade, such as agriculture, recycling and waste, commercial and residential, are available for providing offsets to the Cap and Trade program. Offsets are verified emissions reductions outside of the Cap and Trade program.
- The Environmental Defense Fund (EDF) likes offsets because it engages industries outside the Cap and Trade program.
- In our current climate, an organization can profit by polluting. The desired future states is organizations think about emissions reductions, and incorporate reductions and allowances into their business plan.

- There are a lot of benefits for creating a regulatory Cap and Trade program: environmental integrity, early low cost solution incentivized, innovation for green technology, price responds at pace of business, allows for flexibility in how targets are met.
- Why not carbon taxes? Some might be willing to pay that price. Also, how do we make the calculation on what the actual cost is for the pollution? There are political barriers to instituting a new tax with uncertain environmental outcomes.
- There are a lot of details that are being worked on in designing the Cap and Trade program, such as: What are the caps per year? What is the process of the auction? How aggressive should we be?

2012 is the energy and large industry

2015 transportation,

Brieanne Aguila, California Air Resources Board:

- CARB has spent 3 years developing this Cap and Trade program; the board is scheduled to vote on the proposal on December 16th. They have a year to implement it, which is aggressive for the complexities involved with this program.
- 2012 will include emissions from electricity (including imports) and large industry (large being any industry producing over 25,000 tons per year). In 2015 the transportation sector (fuel suppliers, transportation suppliers, natural gas and propane) will be added, which includes approximately 600 facilities in the state.
- The first 3-year compliance period (2012-2015) will include allowances for 165 million metric tons. Annual verification and reporting is required, with submission of 30% of required allowances per year, such that 100% of allowances are submitted at the end of the 3-year period.
- The second compliance period beginning in 2015, which adds the transportation sector, increases the allowance cap to 394 million metric tons.
- The cap for each year in the program is set by looking at an estimated emission in each sector from either 2012 or 2015 and work backwards to get to the 2020 goal. The cap declines ~2% per year
- The next step is determining how the regulated entities receive these allowances: Do they get them for free? Are they auctioned? As of now, they are being given at a value to benefit rate payers to minimize rate increases.
- In 2015 there will be a much larger portion of the allowances auctioned as the fuels come into play.
- 4-5% of the allowances will be set aside in a reserve, making the cap tighter and allowing entities to purchase the reserved allowances at fixed prices. In addition, use of offsets will be allowed for up to 8% of a compliance obligation.
- One allowance equals one ton of emissions. EU charges \$42 per ton; California is charging \$40, \$45, \$50 per ton for the reserve allowances, expect pricing of ~\$20-25 per ton in 2020. The plan allows some flexibility in the early years when people are trying to figure out how to reduce and reach the goal.
- Allowances do not expire, but you can only use them at one time. They cannot be used prior to their set date.
- There is a max allowance holding limit proposed to prevent market monopolization.
- If a company doesn't comply, every exceeded ton has a 4:1 per ton per day violation.

Bill Westerfield, SMUD:

- SMUD's primary concern with the CARB Cap and Trade Program is allowance allocation to the energy sector.
- Allowances have real value. SMUD is a leader in the sector already, and one of the cleanest facilities in the state. They are 30% cleaner than the state-wide average. They are already 20% below their 1990 carbon level, and expect to be 30% below 1990 levels by 2020. The SMUD board has a policy in place to reduce greenhouse gas emissions to 90% below 1990 levels by 2050 and at almost 100% renewable power.
- EDF has been the champion of Cap and Trade, and SMUD welcomes it.

- Allowance prices are expected to go up once their auctions go forward. There is a floor at \$10.
- Similar to the Acid Rain Program, President Obama’s proposal was to not allow free allowances, rather sell all of the allowances and dedicate the funds raised towards research and development and rebates to tax payers.
- ARB policy is to ease the cost on customers by allocating enough allowances to match the emissions.
- How allowances are apportioned among utilities is a divisive subject. There is a delicate balance in creating a solution to reward utility companies who have already invested in clean energy (such as SMUD) without causing severe rate hikes to with utilities who were not as progressive.
- The utility companies have had serious negotiations amongst themselves regarding allowance allocations, thus far with no resolution. There are principles embraced by all electric utilities in the State:
 1. Any allocation approach should reflect the cost burden of the rate payer in the future;
 2. Any allocations should incorporate the benefits of existing energy efficiency investments; and
 3. Any allocation approach should recognize early action in procurement of clean energy.
- ARB mandatory reporting regulation: SMUD has reported two times. It has been phased in so there is no fear of errors and penalization. There are now significant revisions up for adoption at the December 16th board meeting that will align the existing reporting requirements with those of the Cap and Trade program. USA EPA also has mandatory reporting, so the ARB incorporated many of the EPA’s rules, with hopes that in the coming months there will be one single reporting tool to improve reporting efficiency.
- SMUD hopes the Cap and Trade program will offer:
 1. Clear, fair, long-term policy signals;
 2. Provide a regulated market for trading; and
 3. Flexibility to meet the emission reduction requirements, such that there is a minimum cost impact to ratepayers.

Open Discussion

- ARB is going to establish a market tracking system. Secondary markets will have to register with ARB.
- There will be a cross-sector shift when transportation moves more towards electric vehicles, adding an impact to the utilities. The cap is economy-wide, and there are no limits for a specific industry.
- There will be 2.7 billion allowances throughout the entire nine-year program.
- “Compliance instruments” include allowances and offset credits
- The big question is “What is going to happen in 2021?” This is a short program, so we need to think ahead. EDF doesn’t want a California Cap and Trade program after 2020, they want a federal program. There is a risk that the allowances will tank in value at the end of 2020, thus there is a price floor of \$10 per ton.
- ARB expects to see as a result of the Cap and Trade program a significant reduction in the traditional criteria air pollutants, but they expect it will have very little impact at the local level.

Partner Updates

- Breathe California Sacramento Emigrant Trails—CEO Kori Titus reported that nominations are open for their Clean Air Awards and encouraged participants to nominate businesses, organizations and individuals for an award.
- Sacramento Metropolitan Chamber of Commerce — Regional Policy & External Relations Manager Kelly Brenk reported there will be a Resources Committee meeting on December 8th which will include an initial brainstorming session for air quality policy principles for the State Legislative Summit event in February.
- Valley Vision – CEO Bill Mueller encouraged participants to attend the SACOG Rural Urban Connection Strategy (RUCS) event on Friday, December 10th.

General Announcements

- Next Quarterly Luncheon – Friday, March 11, 2011

Participants:

First

Name:	Last Name:	Company:
Keni	Addison	Sacramento Works
Brieanne	Aguila	California Air Resources Board
Jim	Alves	Sacramento Municipal Utility District
Jennifer	Bailey	Northern CA World Trade Center
Jeane	Berry	SMAQMD
Kelly	Brenk	Sacramento Metro Chamber
Jacobe	Caditz	Sacramento Tree Foundation
Tom	Cahill	DELTA Group, UC Davis
Teri	Duarte	Sacramento County Dept. Health & Human Services
Mat	Ehrhardt	YSAQMD
Gene	Endicott	Endicott Communications, Inc.
Jamie	Fine	Environmental Defense Fund
Chris	Flores	Office of Congresswoman Matsui
Larry	Greene	Sacramento Metropolitan AQMD
Tony	Held	ICF Jones & Stokes
David	Houseworth	Paramount Energy Solutions
Brandon	Ida	Senator Barbara Boxer
Camille	Kustin	The Better World Group
Argelia	Leon	Breathe California of Sacramento-Emigrant Trails
Jennifer	Montgomery	County Of Placer
Chris	Morfes	Sac Metro AQMD
Bill	Mueller	Valley Vision
Kent	Nakata	City of Lincoln
Todd	Nishikawa	Placer County APCD
Diana	Parker	SMUD
Suzanne	Phinney	Aspen Environmental Group
Tom	Stallard	CAP Chair
Liisa	Stark	Union Pacific Railroad
Julia	Sway	Valley Vision
Bree	Taylor	Sacramento County Airport System
Tim	Taylor	Sacramento Air District
Sue	Teranishi	Breathe CA of Sacramento
Tara	Thronson	Valley Vision
Kori	Titus	Breathe California
Phil	Tretheway	Marketing by Design
Pamela	Vanderbilt	CH2M HILL
Bill	Westerfield	Sacramento Municipal Utility District
Earl	Withycombe	California Air Resources Board
Laura	Yoon	ICF INTERNATIONAL