

## US STATES STEAM AHEAD ON EMISSIONS PROGRAMMES CLIMATE

### **Advocates Hope Regional Cap-and-Trade Programmes Can be Templates for National action. Recharge Media - December 3, 2010**

With hopes of a national US cap-and-trade programme dead for the foreseeable future, it has fallen to the individual states and provinces of North America to implement market-driven greenhouse gas reductions. After a period of "huge enthusiasm" from early 2009, investment stalled this year with the failure of climate legislation in the US Senate, says Yuda Saydun, president of ClimeCo, which develops projects that improve air quality, generate renewable energy and create tradeable emissions reductions. But interest among investors is again perking up, with attention going to the three regional North American carbon markets.

"The game has now changed," Saydun tells *Recharge*. "It's no longer at the federal level. It's at the state level." The emerging carbon market in the US West gained significant momentum as California voters upheld the state's greenhouse gas reduction goals. "That was a huge signal as to which way the markets are likely to go," he says. The states are often described as policy laboratories for federal government. Climate advocates hope regional cap-and-trade programmes will be templates for national action and provide proof to refute arguments that the system will crush the economy. Saydun says that, despite the political uncertainty, more industrial companies are viewing emissions limits as inevitable and are acting accordingly. "The whole issue of climate protection is beyond policy," he says. "It's an issue that's going to be there. It's not going to go away."

#### **Western Climate Initiative/California**

In 2007, five states began crafting the Western Climate Initiative (WCI), envisaged as an expanding, regional cap-and-trade programme covering western North America.. The WCI includes seven US states and four Canadian provinces, with another 16 states and provinces "observing", including all six Mexican states that share a border with the US.. But most of the action is in California, the world's eighth-largest economy and the participant that has advanced furthest in setting up its programme. There are serious questions about some other states' commitment. The California Air Resources Board (CARB) recently released near-final rules for the state's cap-and-trade scheme, set to take effect from 2012. It will be the primary means for reaching a goal of cutting greenhouse gas emissions to 1990 levels by 2020. The 2006 law setting the broader emissions target was affirmed in November by voters, who strongly defeated an oil-industry-backed assault on it known as Proposition 23. This popular support, described as the largest vote cast in favour of climate change mitigation, has lent renewed strength to the effort and elevated business interest in the still-forming market. "The additional certainty that's come with the defeat of Prop 23 has given some boost to the market in terms of emissions reductions projects," Max Williamson, an attorney with Andrews Kurth and a top expert on regional climate markets, tells Recharge. In November, Barclays and power producer NRG Energy engaged in the first deal for emissions allowances under the California system. They are priced at \$11.50 per tonne, for delivery in late 2012, the year the scheme takes effect. It is a bit above the probable auction floor price of \$10, but Williamson does not read too much into the price at this point. Prices for both emission allowances and offsets will be "highly variable" until the market rules are further clarified. Other transactions on voluntary, over-the-counter markets are being carried out with the expectation that they will count on a pre-compliance basis once the California market begins.

Initially, only about 600 facilities in the state would be covered, with more to be added in 2015. The cap is to be set at 168 million tonnes. The rules allow up to 8% of an emitter's obligation to be satisfied with reductions from off-site sources — known as carbon offsets. Williamson calls the inclusion of offsets "one of the most positive aspects of the proposed ARB market rules", but wishes the regulators would adopt more of the existing voluntary market infrastructure that exists.

"They need to be uploaded as soon as possible so that the market will have sufficient supply, but also sufficient diversity and liquidity that will allow the market really to function as a true market rather than a bureaucracy," says Williamson, who represents the Carbon Offset Providers Coalition, a trade association of investors in offset projects.