

# A carbon market takes root in California

**Dana Hull, Bay Area News Group, 3-1-13**

When California held its first-ever auction of greenhouse gas emission allowances last fall, allowances sold for \$10.09, just pennies above the \$10 floor price set by state regulators. Some observers warned that the low price meant the state's new cap-and-trade program wouldn't work and was a sign that companies were not participating.

But in the second auction last week, the allowances sold for \$13.62 each, higher than many analysts had expected.

California's carbon market remains in its infancy, and the program still faces a legal challenge and uncertainty about what action, if any, the federal government may take to reduce emissions at the national level. Still, the success of the most recent state auction

"There's a growing sense of stability in cap-and-trade as a regulatory approach," said William Sloan, a partner at Morrison and Forester's environment and energy group. "More and more companies are willing to put their money into this market."

The "cap" in cap-and-trade refers to a mandatory statewide limit on greenhouse gas emissions set by the California Air Resources Board that declines 2 to 3 percent a year, ensuring the overall level of emissions statewide is steadily reduced.

Large businesses that emit more than 25,000 metric tons of carbon dioxide are covered under the program.

That includes 360 businesses representing 600 facilities across the state. In the first phase of the program (2013-14), the cap covers electricity suppliers and large industrial sources such as refineries and cement companies. Several companies, including Chevron, Del Monte, Exxon Mobil, Foster Poultry Farms, Lockheed Martin and Dow Chemical were among the list of "qualified bidders" that registered to participate in the latest auction.

California currently emits 447 million metric tons of carbon dioxide a year, according to the air board, which has been collecting and monitoring emissions data since 2008. The biggest chunk, 38 percent, comes from the transportation sector, largely from cars and trucks; 21 percent comes from electric power plants; and 19 percent comes from industrial factories.

An allowance is like a permit to pollute, and authorizes the holder to emit one ton of carbon. Under the rules of the cap-and-trade program, every regulated facility must turn in allowances equal to their emissions at periodic check-ins. Some speculate that the price of allowances will go up in future auctions as the market further evolves. To provide companies with a basis for planning, the air board sets a floor price on allowances for each auction.

"Not only did the price settle high above the floor price, but you also saw broad participation," Lenny Hochschild, head of global carbon trading for Evolution Markets, said of the latest auction. "It's becoming more and more of a real market very quickly."

Participants submit sealed bids at the quarterly auctions, and the air board does not disclose which companies actually participated.

A robust futures market for allowances has sprung up in which traders buy and sell carbon allowances in

anticipation of where California's cap-and-trade program is headed.

Futures based on California carbon allowances trade on the Atlanta-based Intercontinental Exchange Inc., known as ICE. On Thursday, futures settled at \$14.80 a ton.

The California Chamber of Commerce filed a lawsuit in Sacramento Superior Court last fall challenging the air board's authority to auction greenhouse gas emissions for the purpose of generating revenue for the state. The CalChamber argues that the auction will raise energy costs, harm the economy and impact California's competitiveness; that suit could go to trial in May.

But state Sen. Fran Pavley, the Agoura Hill Democrat who authored AB 32, the groundbreaking global warming bill that authorized California to embark on its cap-and-trade program, says putting a price on carbon "has become an accepted solution around the world for dealing with the serious problem of climate change."

"It allows us to finally give polluters an incentive to reduce their emissions, and I believe many will choose to do so," she said.