



# *Cap and Trade and Carbon Credits*

*What is it*

*How will it work*

*Premise, Systems, Overview*



# What is AB 32

- **Reduction on CA Carbon Footprint – adopted Dec. 11th, 2008**
- **Reduce GHG to 1990 levels (30%) by 2020 from business as usual**
- **Reduce GHG levels by 80% from 1980 levels by 2050**
  - Expand existing energy efficiency programs
  - Achieve Statewide renewable energies mix of 33%
  - Develop a CA Cap and Trade program
  - Establish targets, implement standards, create fees and penalties, and a fee to fund admin costs

# Types of Systems

- **Command & Control vs. Cap and Trade**
- **C&C – Gov’t Regulations – Direct and indirect taxes**
- **Cap and Trade –**
  - **Set upper limit for emissions**
  - **Decide who is responsible for surrendering allowances during the compliance period**
  - **Set price for auction**
  - **Decide on allocation limits**
  - **Set timelines**
  - **Set penalties**



# Cap and Trade benefits

- **Market mechanisms provide a benefit for continuous innovation**
  - Under Command and Control, no incentive to go beyond regulatory standard
  - Under Cap and Trade, additional allowances can be sold or banked
  - Innovation will occur to the level of cost efficiency
- **Cap and Trade worked with Sox and Nox**
  - Up Stream – Cap on total Co2 contained in fossil fuels
  - Down Stream – Direct Emitters - Power Plants and Manufacturers
  - Product or Load Based – Covered Entities responsible for all emissions associated with production of Electricity, NG or other products provided to consumers



# Terms – How they Work

- **Additionality** – Reductions achieved over and above those that would have occurred without the project
- **Allowance** – Gov't authorization to emit certain amount. Total amt linked to cap
- **Allowance Distribution** – Auction, free Allocation, or both
- **Offset** – GHG lowering outside of mandatory emissions system. Can be used, banked or sold.
- **Borrowing, Banking, Leakage**



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