



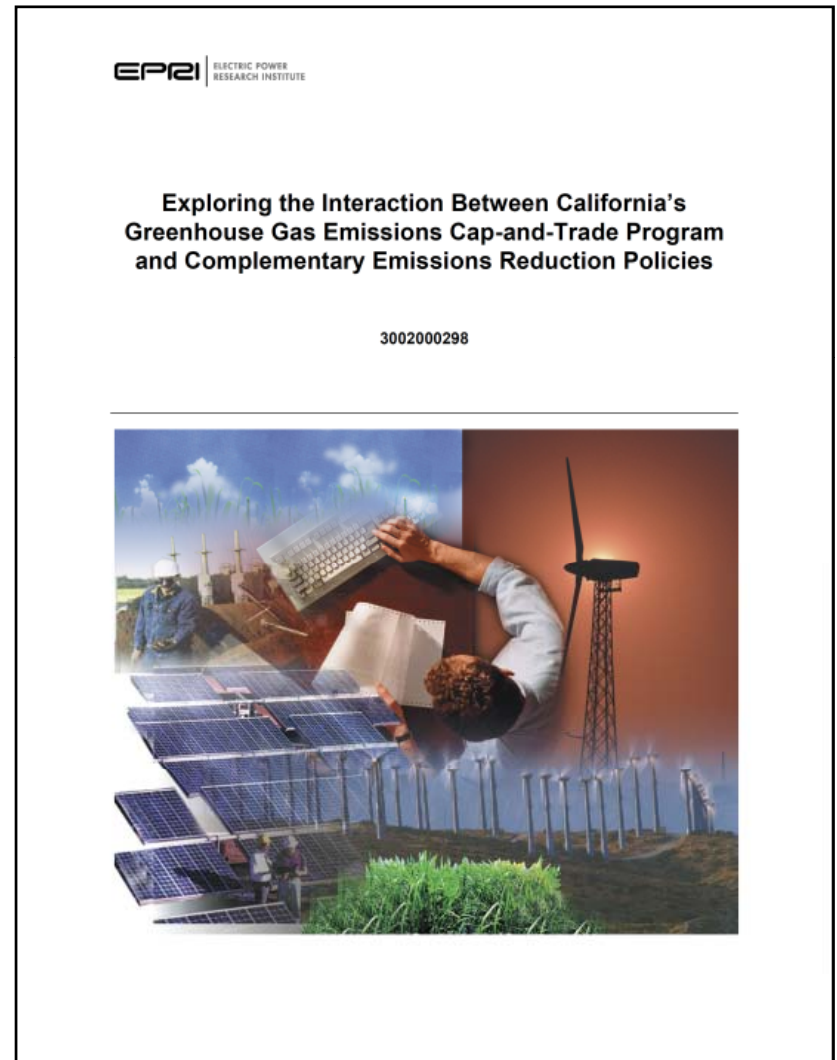
Exploring the Interaction between California's Greenhouse Gas Cap-and-Trade Program and “Complementary” GHG Emissions Reduction Policies

Adam Diamant
Technical Executive
Energy and Environmental Analysis Program

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EPRI Analysis of “Complementary Policies”

- EPRI report published March 2013 (EPRI Doc. #3002000298)
- Describes “complementary policies” adopted in CA, and potential impact of these policies on the operation of the GHG cap-and-trade program
- Available free online:
http://my.epri.com/portal/server.pt?Abstract_id=000000003002000298



Key Insights

- The combination of CPs with C&T is not unique to California.
- Analysts differ on the efficacy of combining CPs and C&T.
- Expected GHG abatement in the C&T program is highly uncertain, ranging from **97-395 MtCO₂e** (2013-2020), and depends on: (i) APCR; (ii) offset usage, and (iii) success of complementary policies.
- Total allowable offset supply is **218 Mt**. Offsets could account for **55-80% of total abatement**, depending on use of the APCR.
- The relative success of CP's in reducing GHG emissions will impact the amount of abatement required to achieve the cap, and allowances prices.
- Electric sector compliance “short” is directly affected by the performance of all of the CPs, including transportation sector CPs.
- CP's may increase net social cost of achieving AB-32 goals, as compared to a “pure” cap-and-trade program, but is likely to lead to lower “visible” CO₂ allowances prices.

California's GHG Mitigation Program

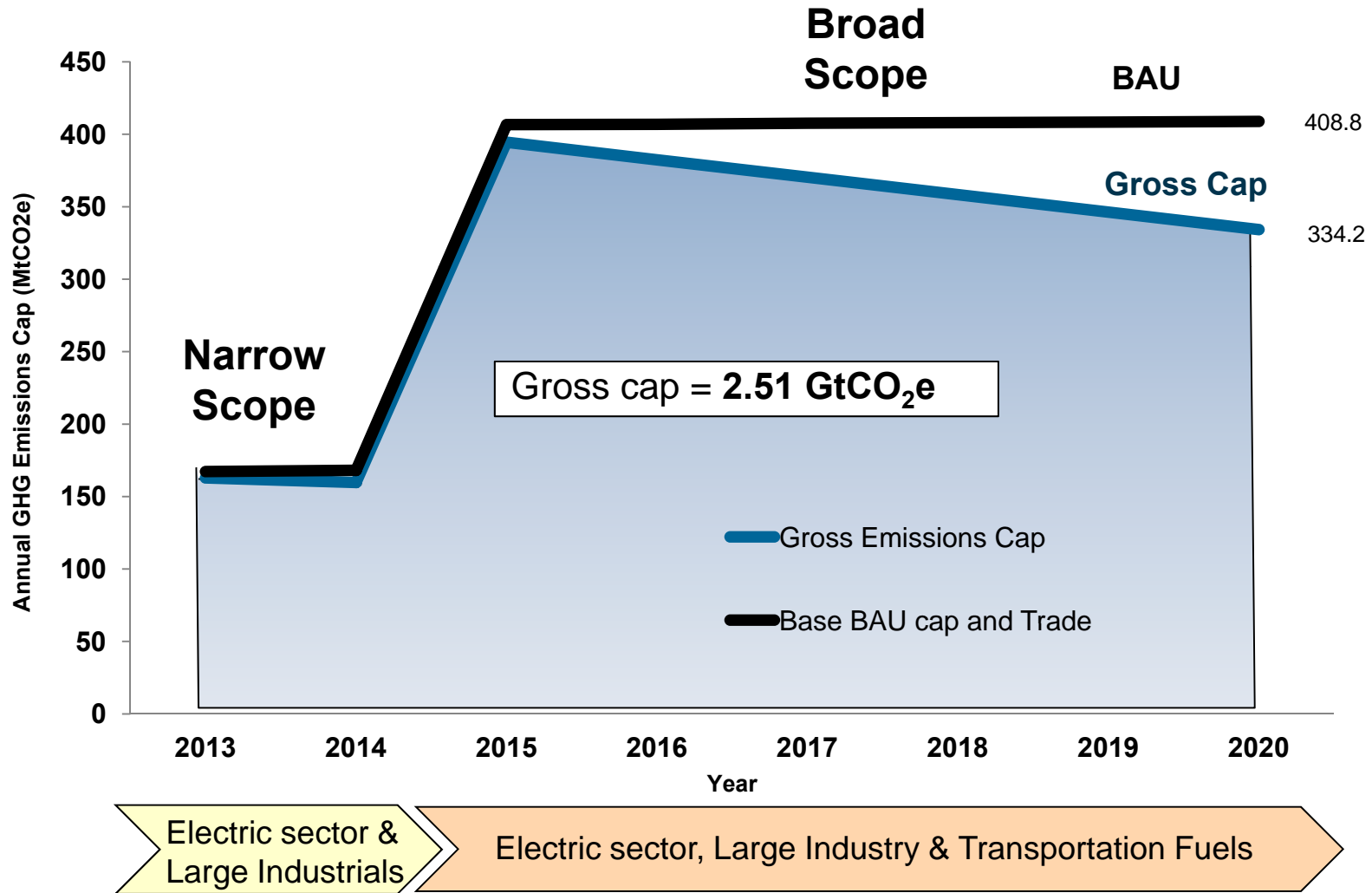
- Global Warming Solutions Act of 2006 (AB-32)
 - 1st economy-wide mandatory statewide GHG emissions cap adopted in the U.S.
 - 1990 statewide GHG emissions by 2020 (427 Mt CO₂e)
- **Direct regulatory measures**, also known as “complementary policies” (CPs), target emissions from key sectors, including transportation, electricity and industry (e.g., LCFS, RPS, EE)
- **Mandatory GHG cap-and-trade program (C&T)** with offsets
 - Cover ~85% of the state economy by 2015.
 - Compliance obligation began January 1, 2013.
 - The “cap” accounts for 334 MtCO₂e of the 427 Mt CO₂e target in 2020.



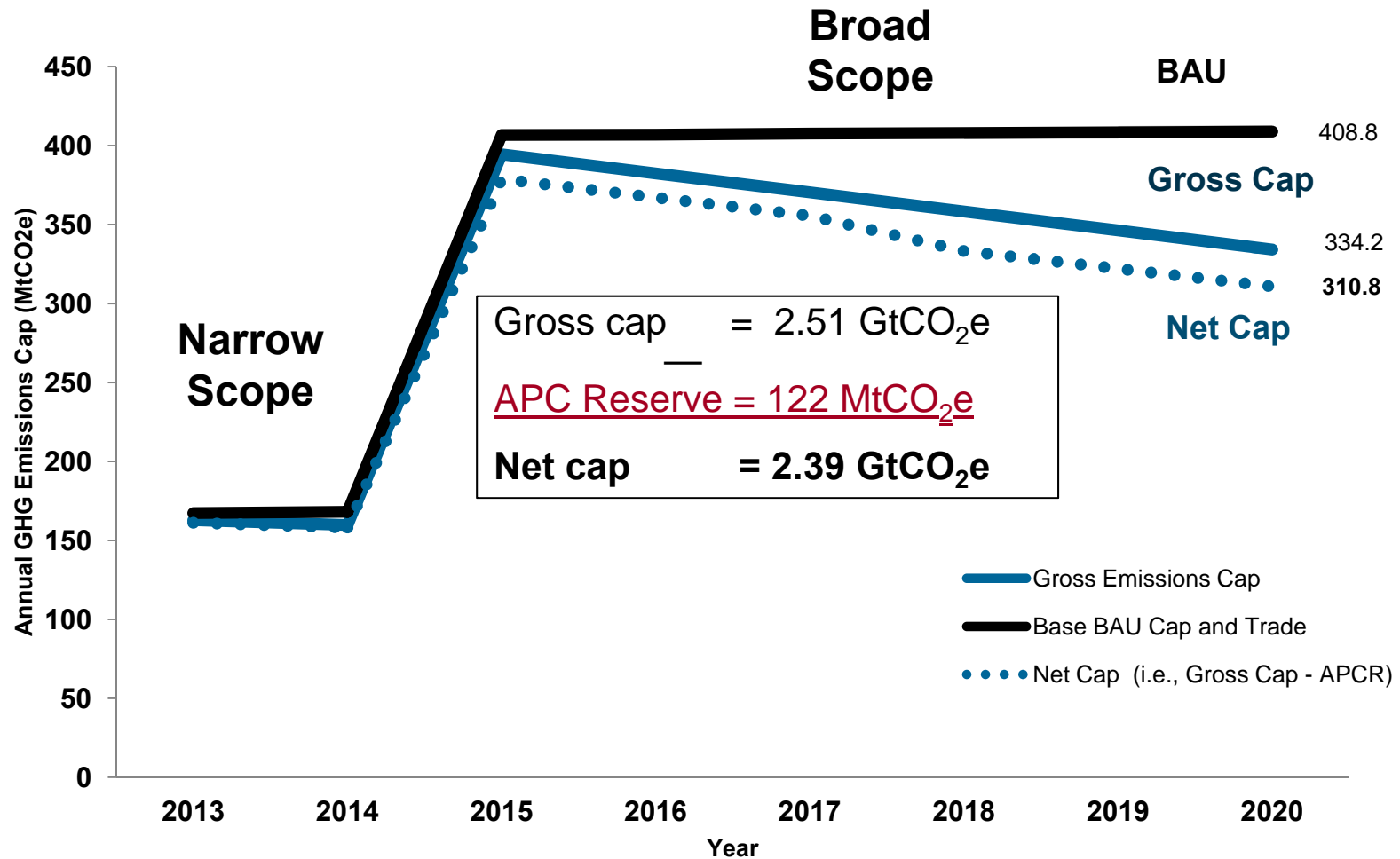
California's Approach is not Unique

- Other regions and nations also have combined complementary policies with a C&T programs to address climate change, including
 - Quebec
 - Australia
 - European Union (EU)
- Waxman-Markey legislation (HR 2454) included EE standards and an RPS along with the C&T program
- If the U.S. adopts comprehensive climate policy in the future, it could utilize a similar approach as used in California

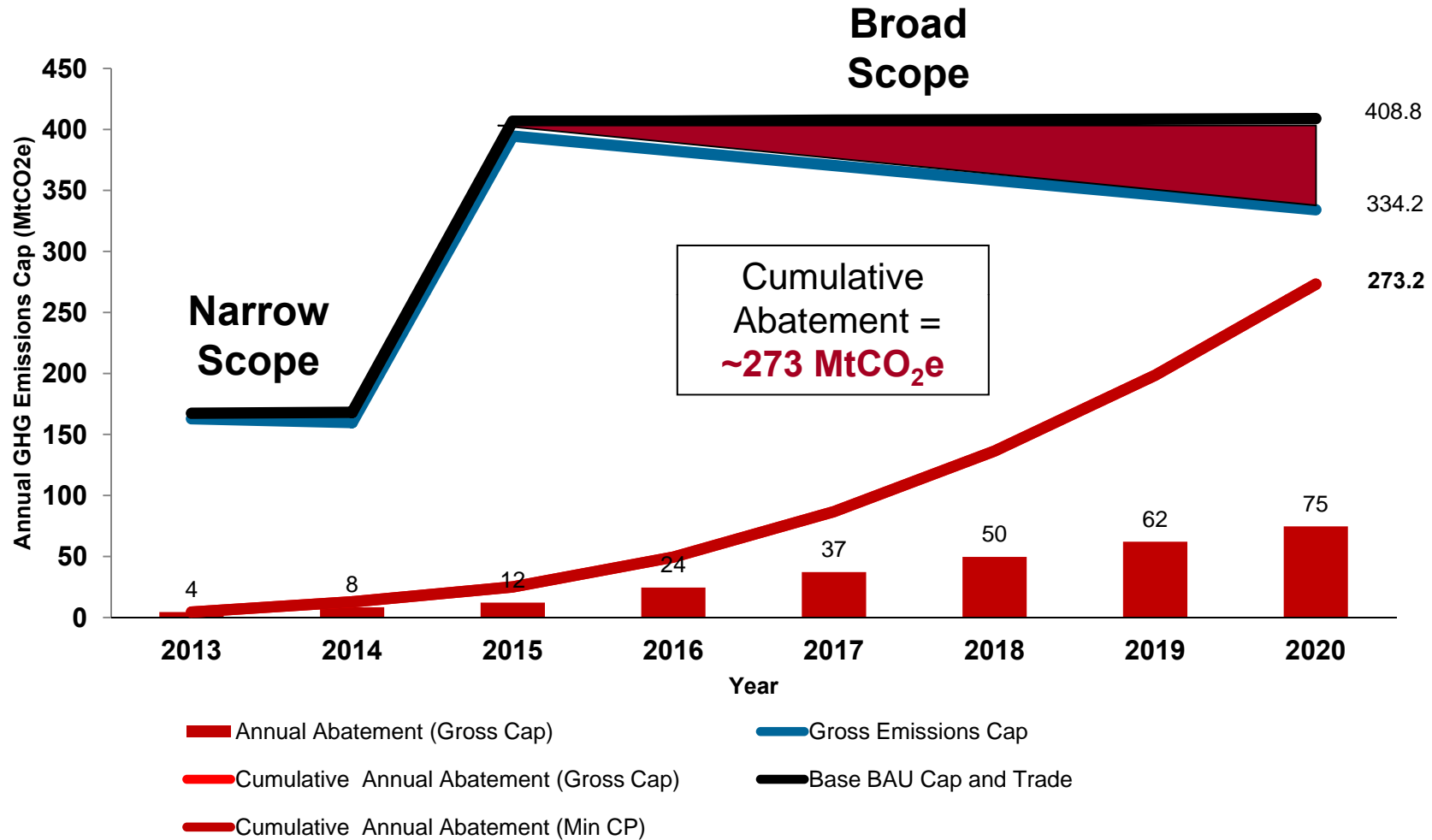
California CO₂ Emission BAU and Emissions-to-Gross Cap 2012-2020



California CO₂ Emission BAU and Emissions-to-Net Cap 2012-2020

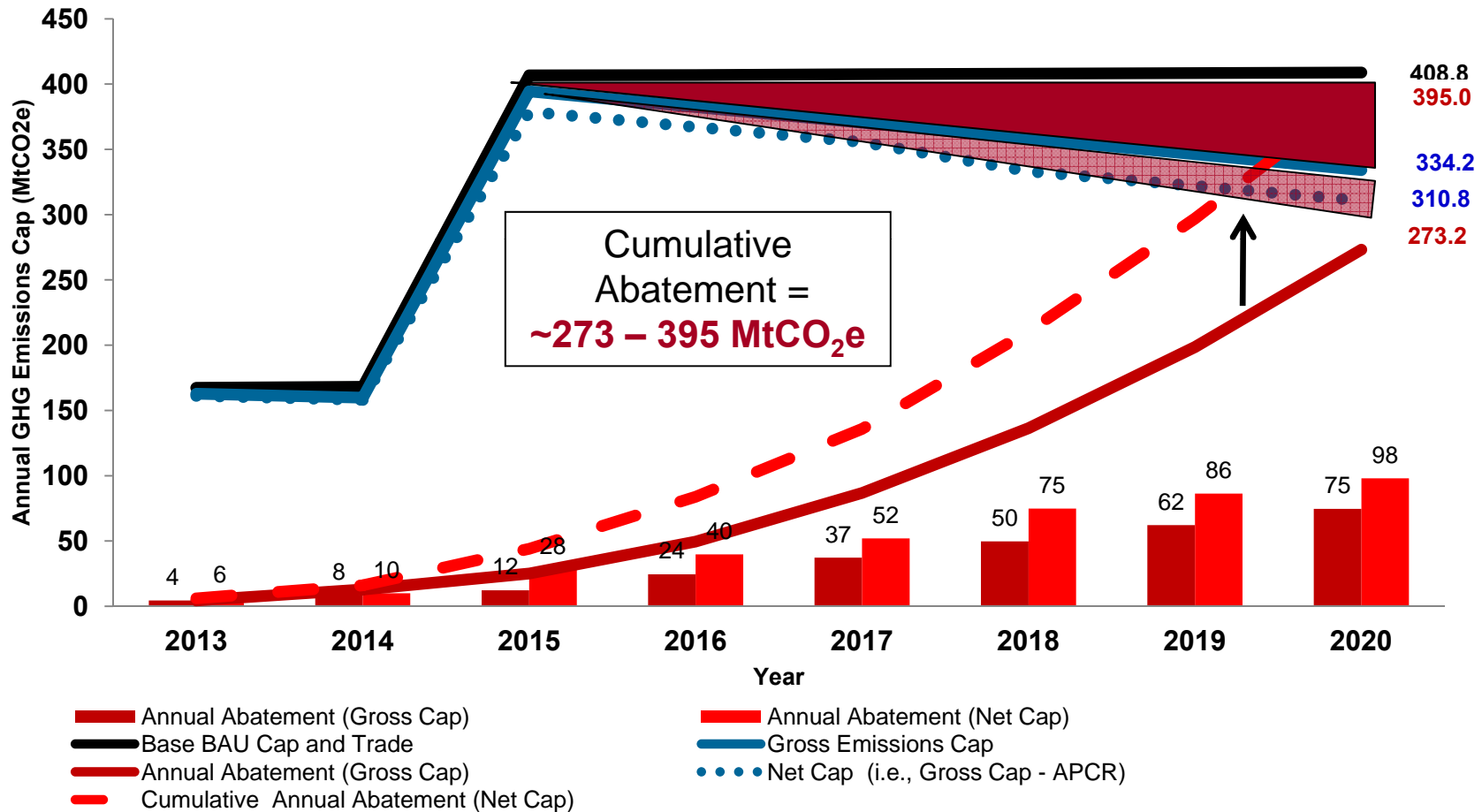


California GHG Emissions Abatement – Emissions-to-Gross Cap

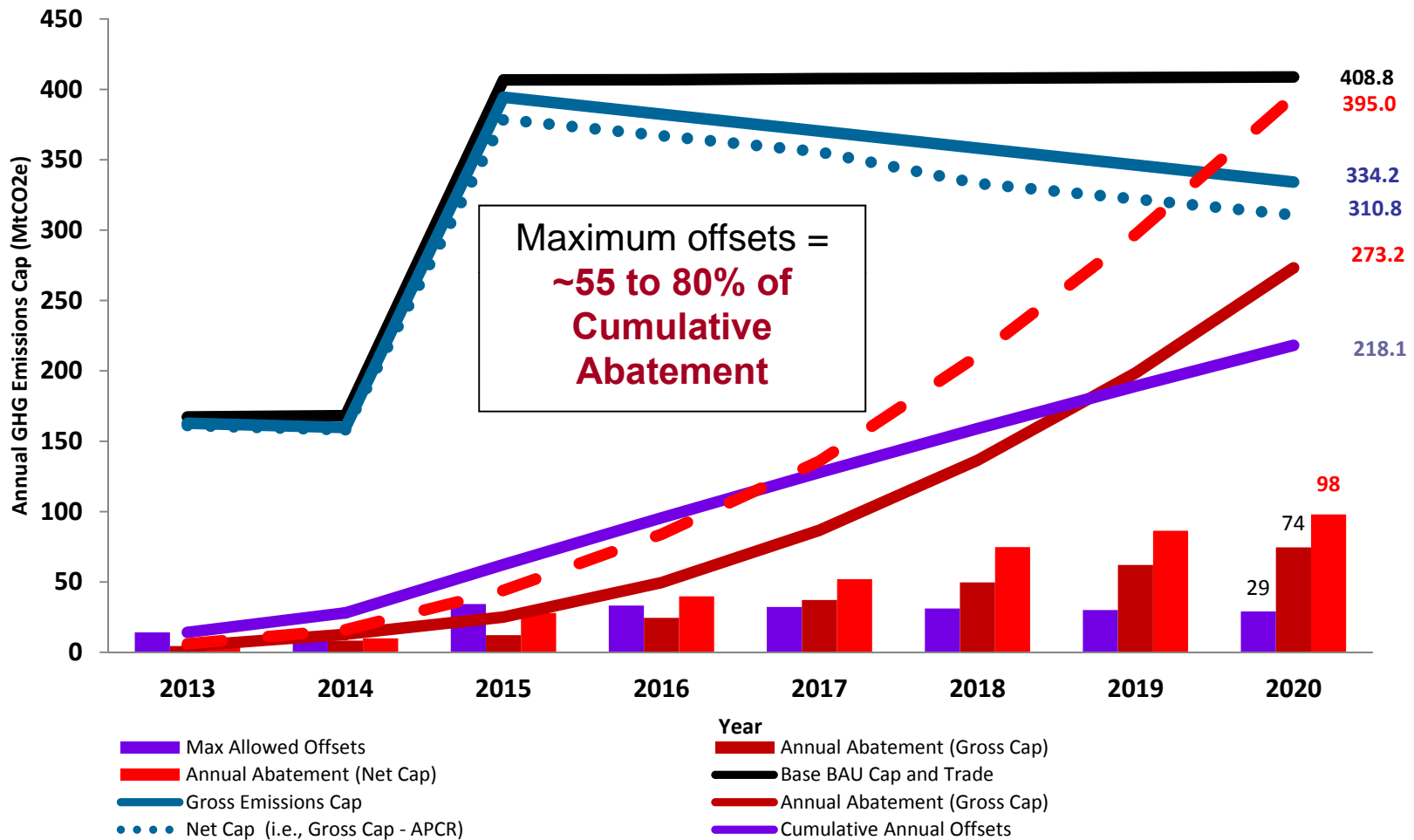


Note: This level of abatement assumes the APCR is fully utilized by compliance entities.

California GHG Emissions Abatement is Uncertain – *Gross Cap* and *Net Cap*

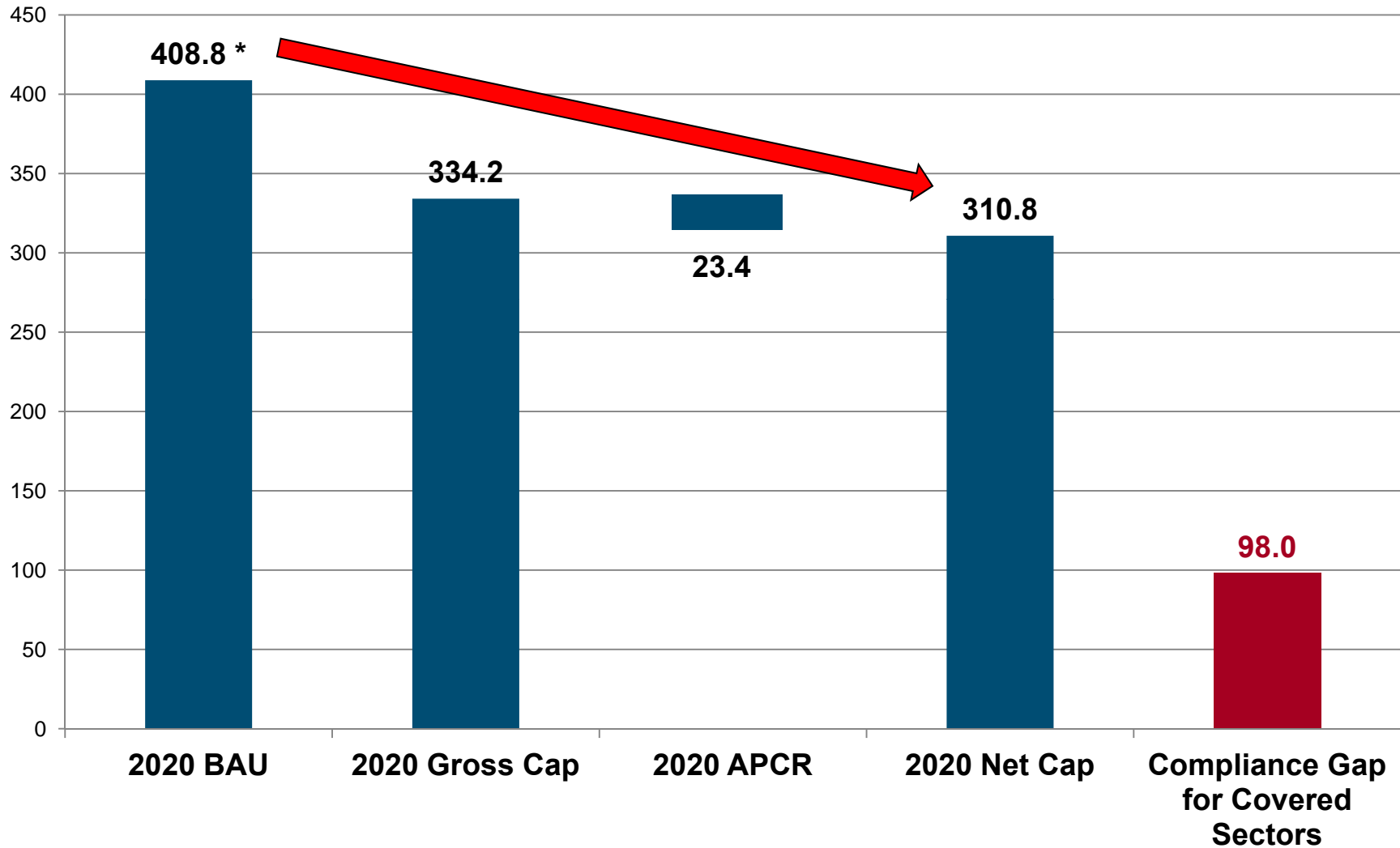


Offsets May Comprise 55% to 80% of Expected GHG Emissions Abatement (2013-2020)



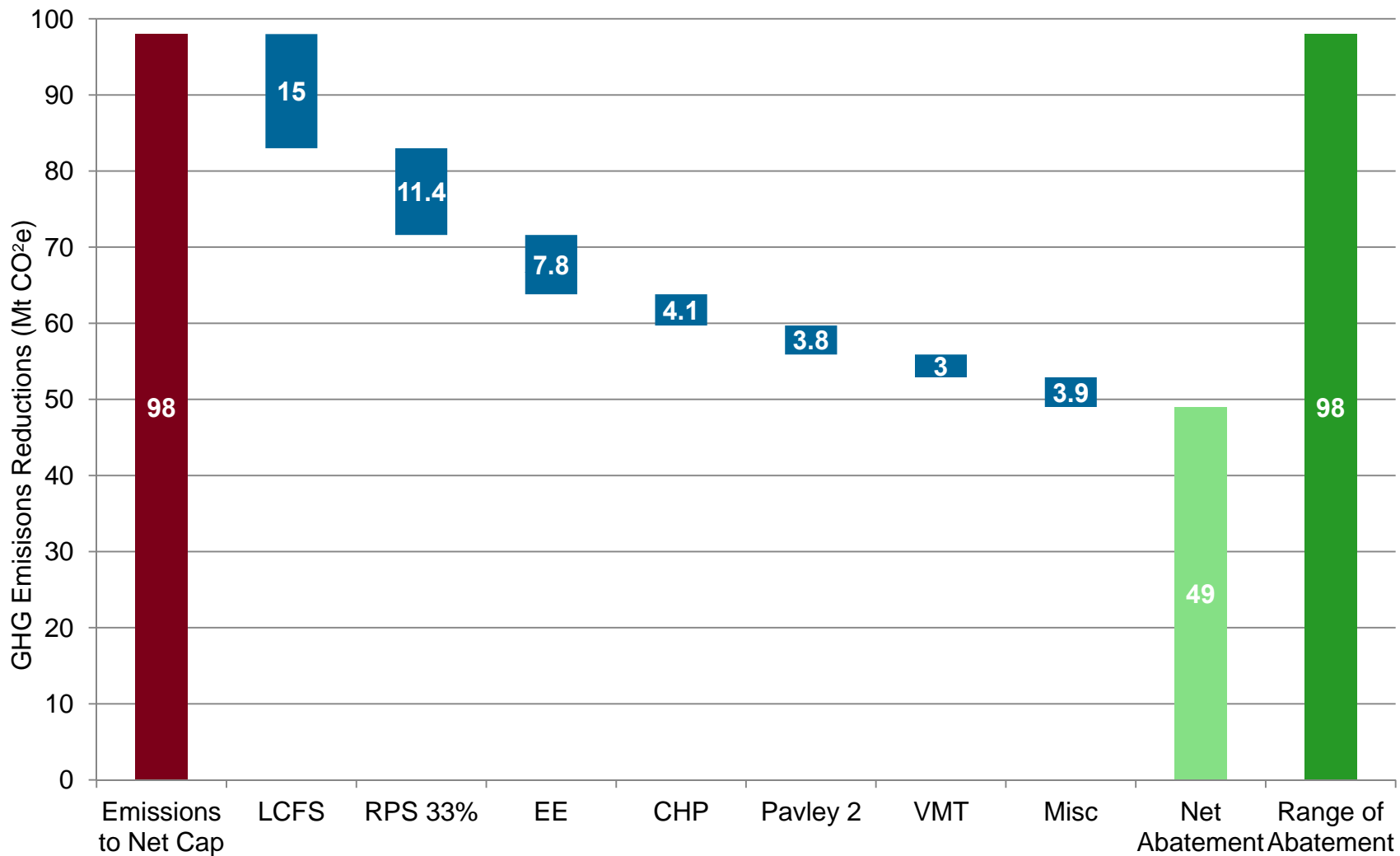
Estimated C&T Compliance Shortfall in 2020

Net Emissions-to-Cap (Mt CO₂e)

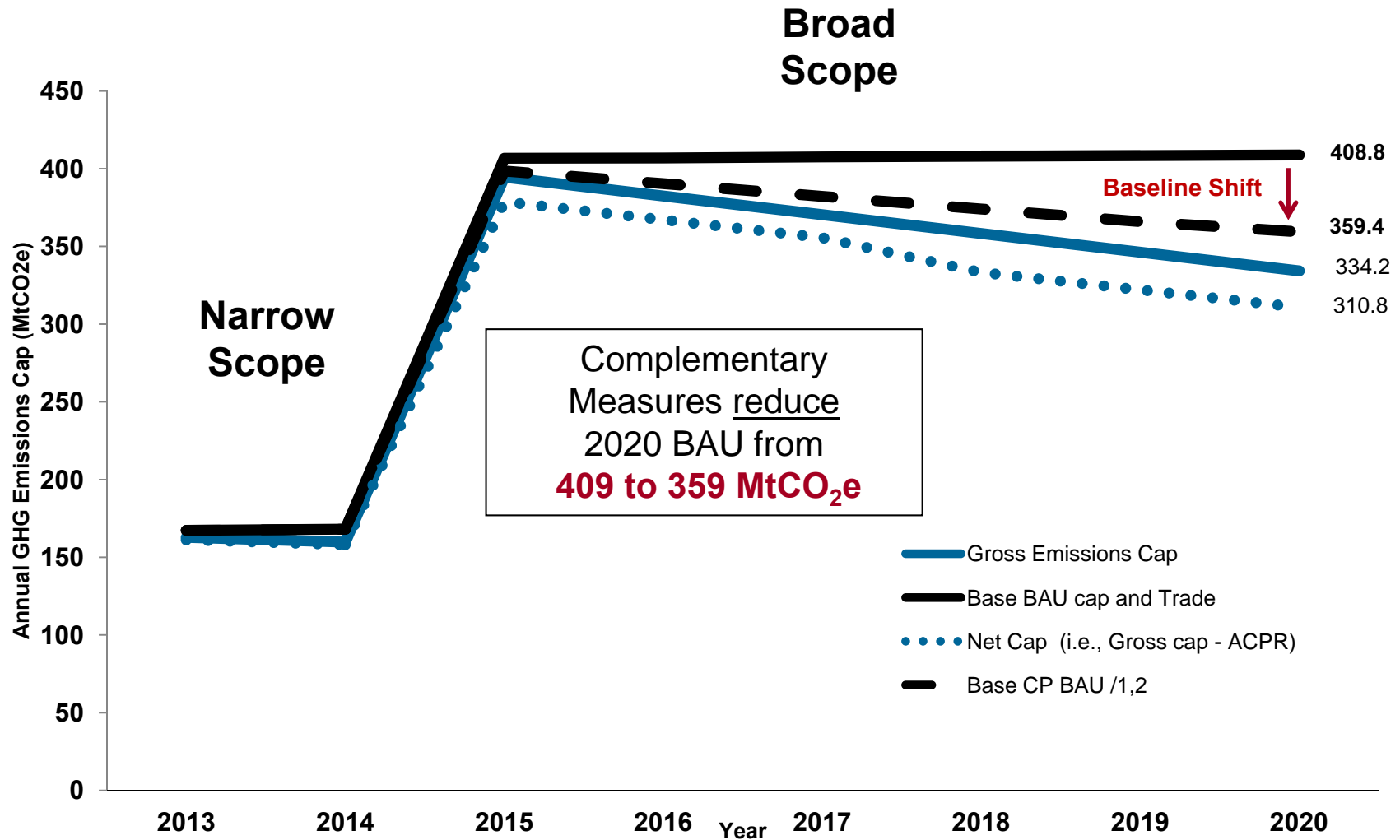


Source: http://www.arb.ca.gov/cc/inventory/data/tables/2020_ghg_emissions_forecast_2010-10-28.pdf

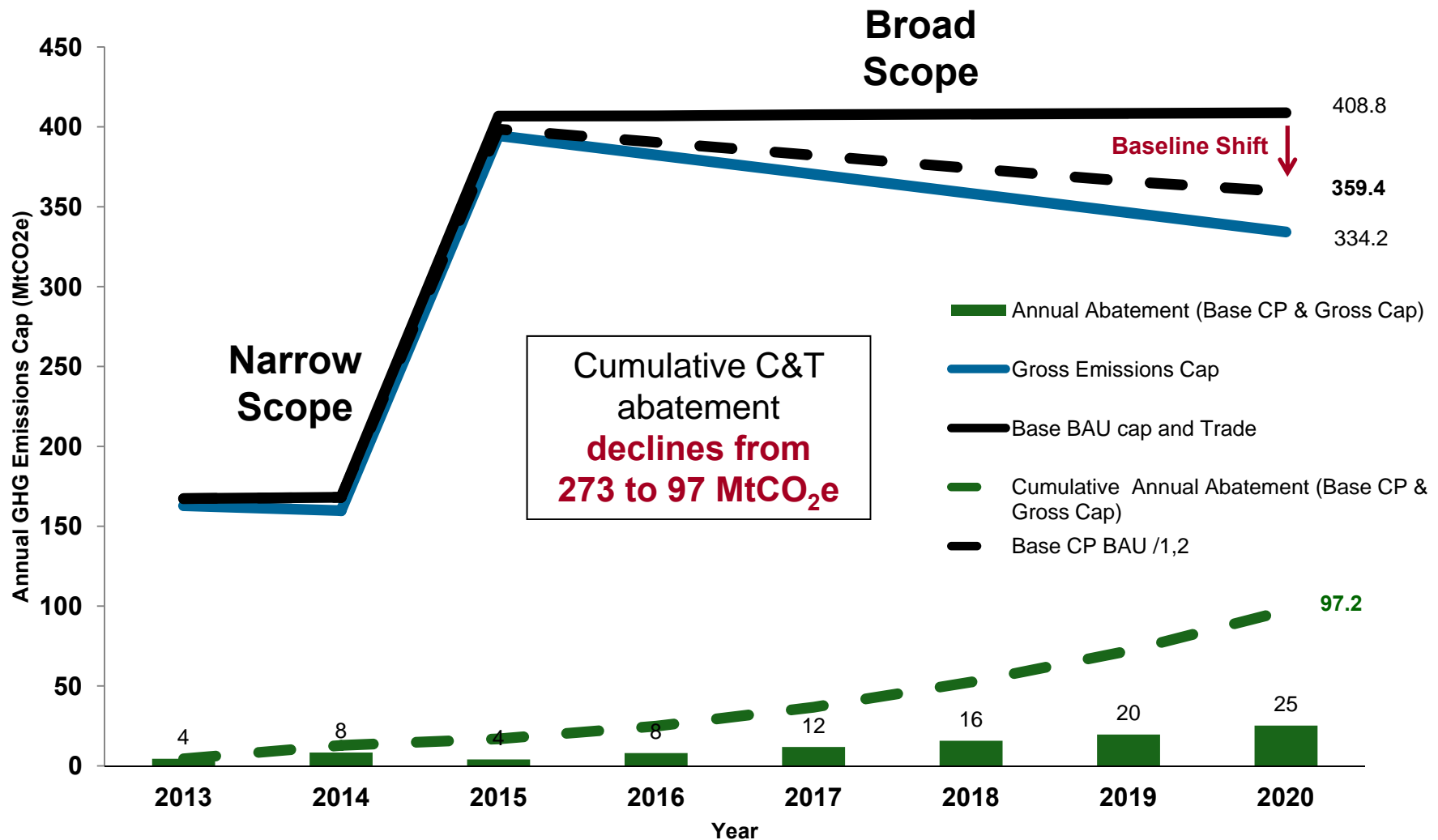
Required GHG Emissions Reductions and Key Role of Complementary Policies in 2020



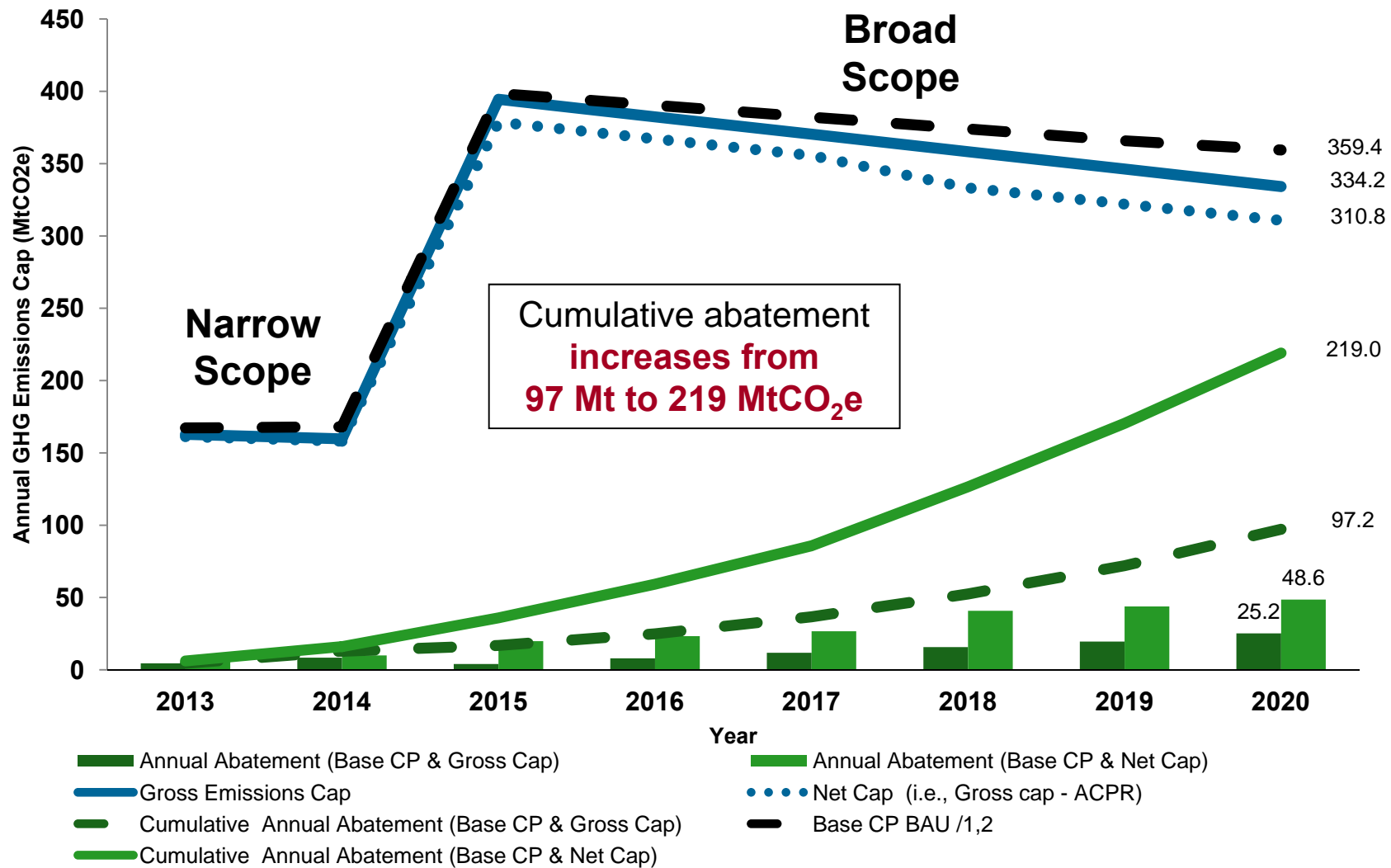
Complementary Measures Reduce Expected 2020 BAU Emissions



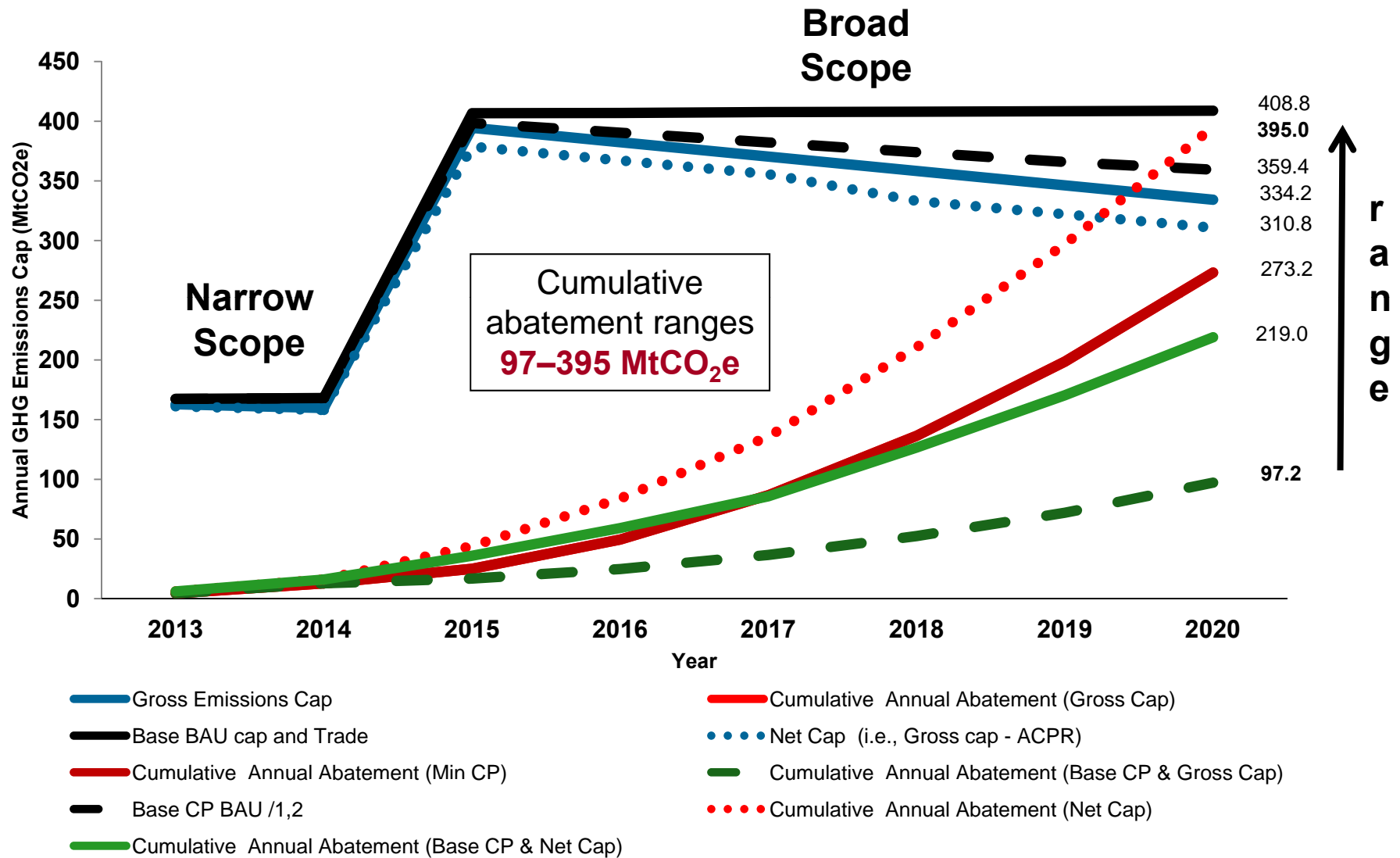
Required GHG Emissions Abatement (Base CP & Gross Cap)



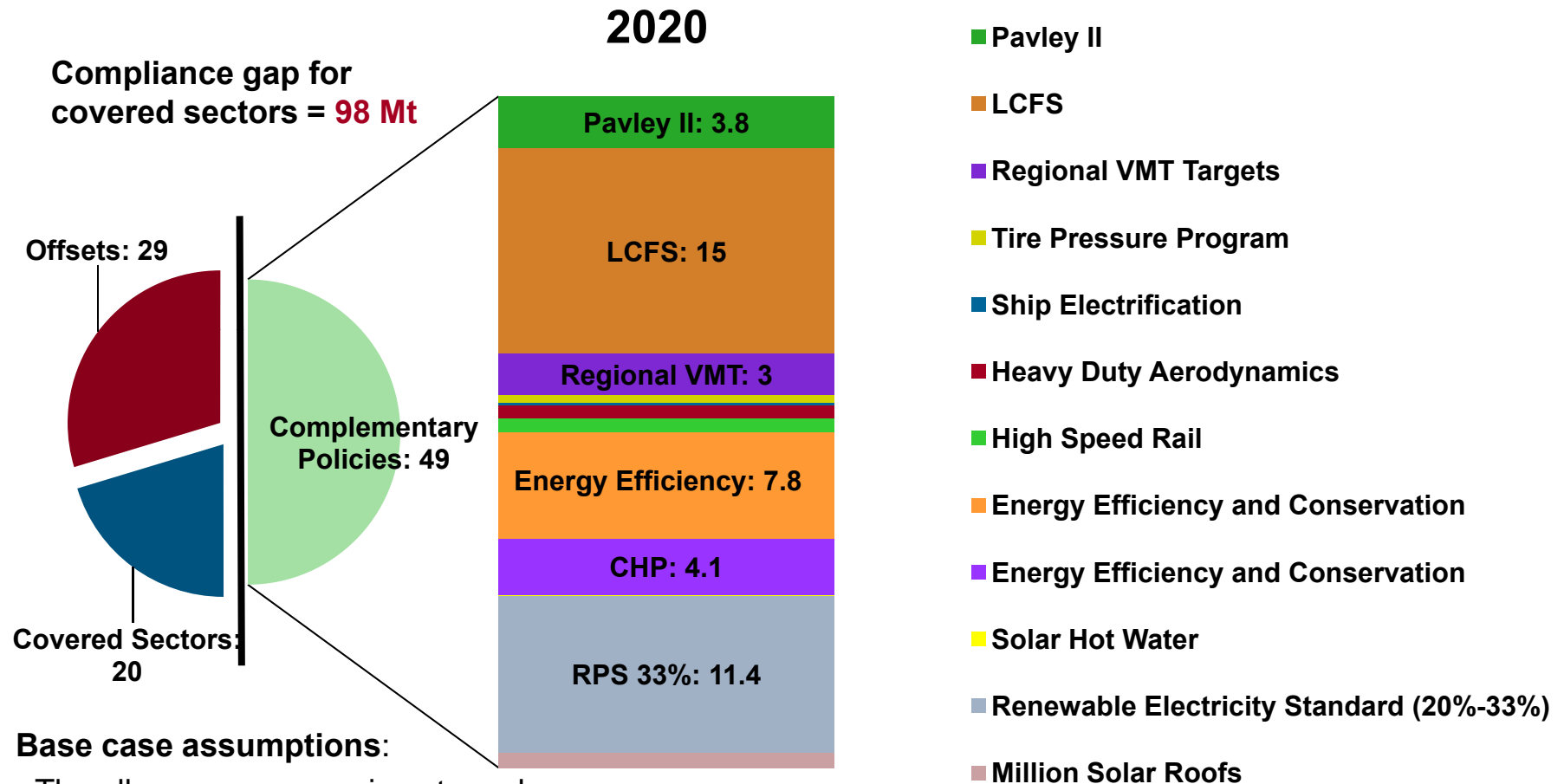
Required GHG Emissions Abatement (Base CP & *Net* Cap)



Required Abatement is Highly Uncertain



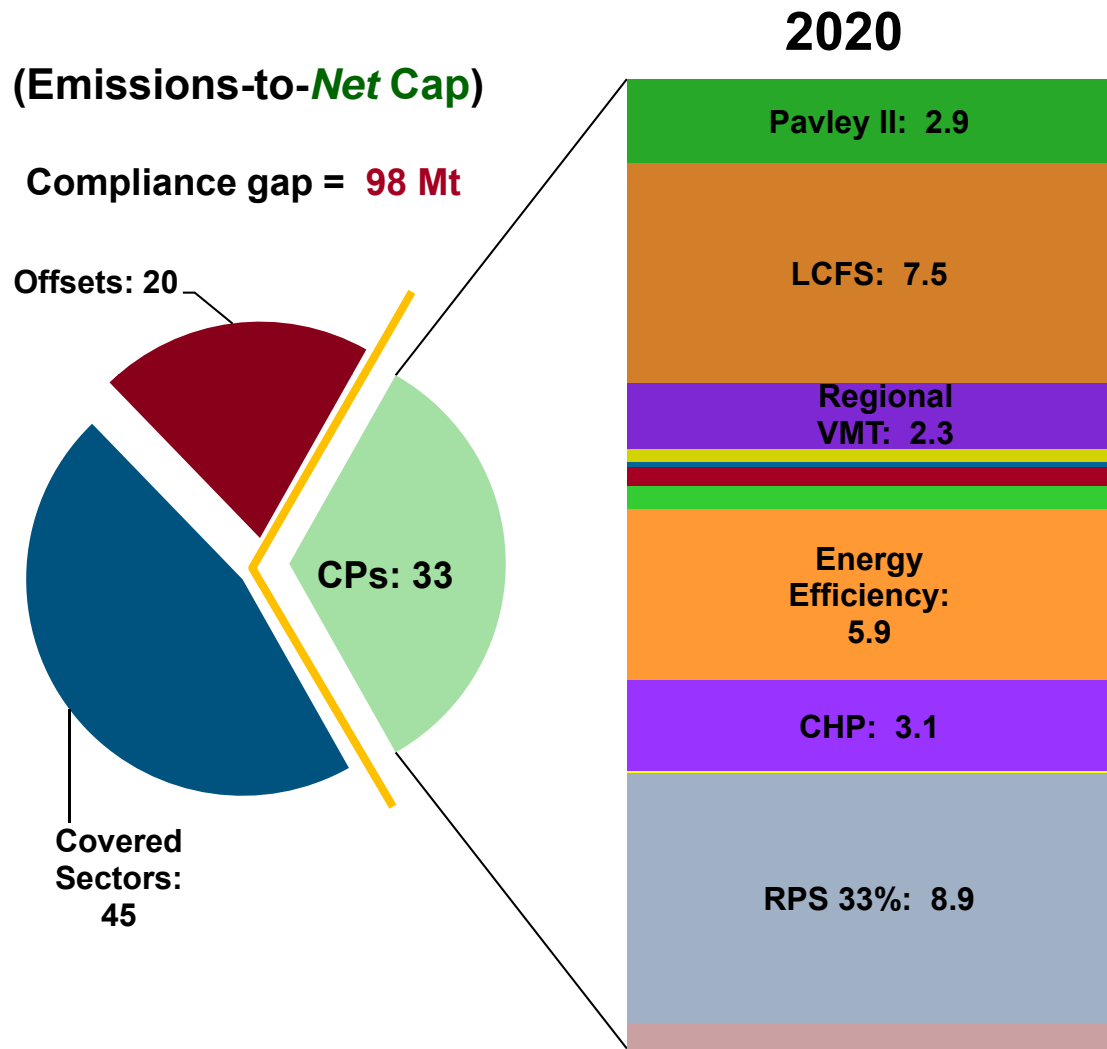
C&T Base Case Compliance Scenario (Emissions-to-Net Cap)



Base case assumptions:

- The allowance reserve is not used
- CPs achieve their targets (49 Mt of reductions) (some small reductions not labeled in stacked bar)
- The maximum volume of offsets (29 Mt in 2020) is available
- Covered sector abatement address the remaining gap = 20 Mt
- CPs account for 50% of compliance

C&T Compliance Scenario 1B: CPs Underachieve & Lower Offsets*



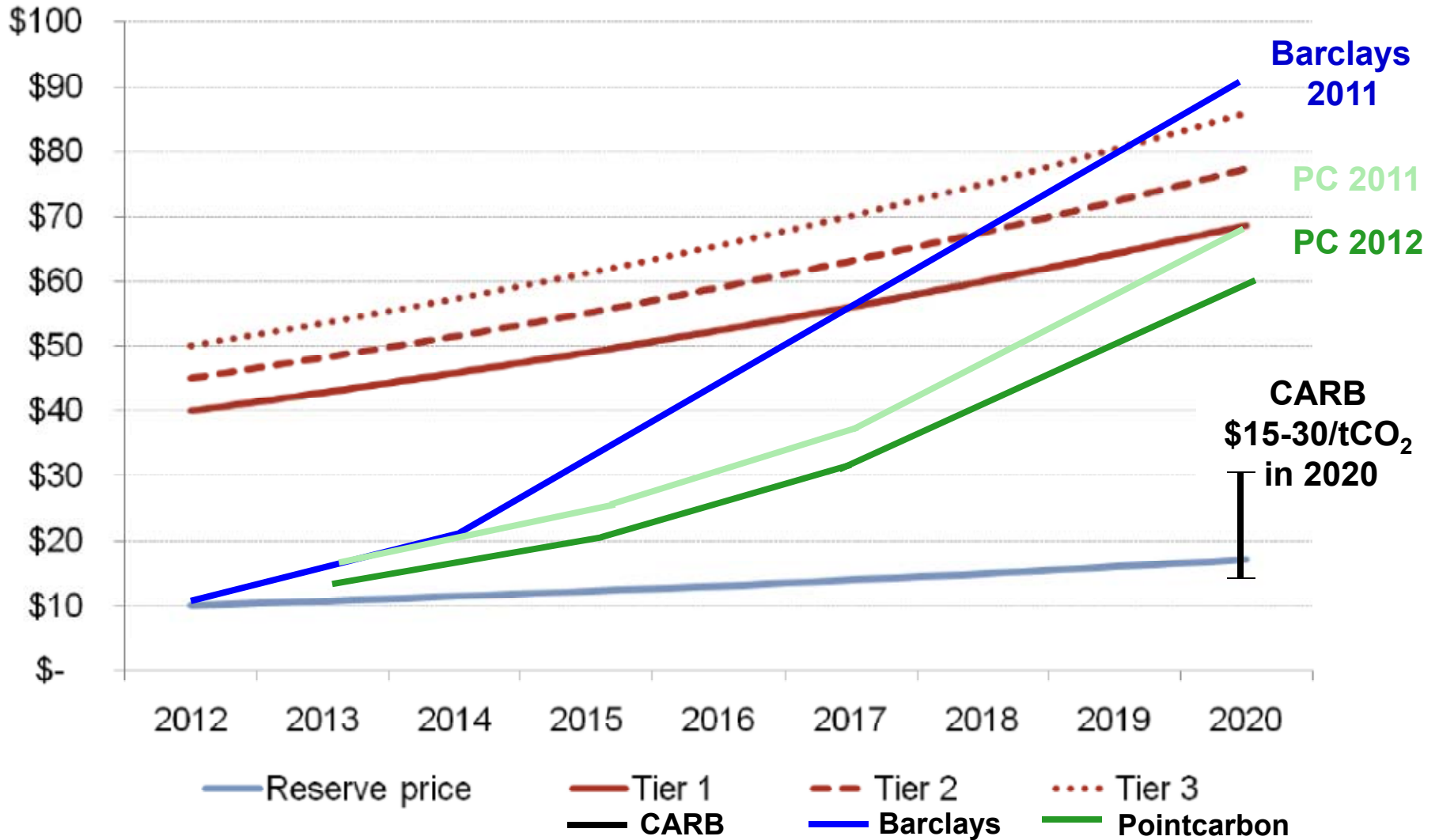
- CPs deliver 33 Mt
- Only 20 Mt of offsets is available
- Covered sectors must deliver ~45 Mt (126% more than base case)
- Allowance prices increase; up to reserve level?
- CPs account for 34% of compliance

* Scenario assumes APCR is not used

Interaction of Complementary Policies and Cap-and-Trade Program

- Potential for all CPs to achieve estimated emissions reductions is **uncertain**
- If CPs targeting emissions in covered sectors achieve **fewer emissions reductions** than ARB estimated...
 - Covered sector emissions will be **higher**
 - Allowance prices will **increase**
 - Dynamic is reinforced if offset supply or hydro/nuclear generation is lower than estimated, or if economic growth is higher than expected
- If these CPs achieve **more reductions** than estimated...
 - Covered emissions will be **lower**
 - Allowance prices will **decrease** (but, total social costs may increase)
 - Dynamic is reinforced if offset supply or hydro/nuclear generation is higher than expected, or if economic growth is lower than expected

Expected CA Allowance Prices May Depend on Offsets, CPs, APCR and Other Factors





Thank You

Adam Diamant

Technical Executive

Electric Power Research Institute

Energy & Environmental Analysis Program

Tel: 510-260-9105

Email: adiamant@epri.com

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