



# **CAP-AND-TRADE STAKEHOLDERS**

## **10 Recommendations to Fight Climate Change in California Effectively, Equitably, and Efficiently**

Latham & Watkins LLP / Alpha Inception LLC

April 28, 2017

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# CHALLENGES AND OPPORTUNITIES

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- **Pressure on Cap-and-Trade Program**
  - Expiration of AB 32 Cap-and-Trade authority
  - SB 32 Adoption (clear target but unclear mechanism)
  - Costly command-and-control pressures (AB 197, AB 378, EJAC)
  - Failure of Cap-and-Trade to generate revenues expected by Legislature
  - Draft Scoping Plan and Cap-and-Trade amendments
- **Risks**
  - Material increase in compliance costs under Cap-and-Trade
  - Potential replacement of Cap-and-Trade by direct measures and/or carbon tax
- **Opportunity**
  - Created Cap-and-Trade Stakeholders group, comprising industry, oil and gas, investor-owned and municipal utilities, registries and intermediaries representing large proportion of covered GHG sources in the State

# OVERARCHING GOAL AND OBJECTIVES

## OVERARCHING GOAL

Reduce California's GHG emissions 40 percent below 1990 levels by 2030 (SB 32) effectively, equitably, and efficiently

<b>Objective 1</b>	Provide good economic signals, restore confidence in the C&T Program, and create a stable and reliable stream of revenues for the State through a free-market mechanism
<b>Objective 2</b>	Leverage the C&T Program to help directly reduce emissions of air toxics and criteria pollutants in disadvantaged communities in California and linked Jurisdictions
<b>Objective 3</b>	Protect California families, consumers, and industry from harmful financial effects resulting from unmanageable carbon allowance price spikes, while minimizing economic and emissions leakage to jurisdictions outside California and achieving sensible climate goals
<b>Objective 4</b>	Continue to demonstrate California's leadership nationally and internationally with a C&T Program that reduces GHG emissions in a cost-effective manner

# 10 RECOMMENDATIONS

Issue	Recommendation	Benefits
1. Program Extension	Extend cap-and-trade through 2030 with 40% reduction below 1990	Meet SB 32 goals; restore confidence in cap-and-trade program; bring demand back to auctions
2. Price Cap	Price cap at [\$50] in 2018 escalating at 2% + CPI annually	Protect state economy and consumers from uncontrollable price spikes and create new state revenues by freeing allowances currently in APCR
3. Transparency	Reporting on GHG and criteria pollutant emissions of large stationary sources	Show efficiency improvements for GHG emissions and reduction of criteria pollutants
4. Disadvantaged Communities	Create \$600 million fund to reduce toxics and criteria in Disadvantaged Communities	Recognize EJ concerns; take first step toward reduction of air toxics and criteria pollutants
5. ARB Exclusive Jurisdiction	Give ARB exclusive jurisdiction over GHG emissions in the State	Ensure air districts do not undercut the cap-and-trade program and reduce State revenues
6. Consumer and ratepayer protection	Maintain current industry assistance and consignment levels	Protect consumers and minimize leakage of economic activity to other states
7. Unsold Allowances	Take all allowances currently unsold and pancake them at 2019 - 2029 auctions	Limit short-term allowance supply; stabilize allowance prices
8. Speed Bumps	Create two speed bumps between auction floor and cap	Provide signal to Legislature of and mitigate risk of market overheating
9. Price Containment	Make offsets available to more compliance entities	Contain cost of cap-and-trade program to CA economy
10. Program Review	LAO to oversee economic and sector analyses at each compliance period	Ensure program works as intended and maintain California's leadership

**Now:**

Greenhouse Gas Reduction Fund (GGRF)

Unsold Allowances  
 118 million unsold California allowances today

Allowance Price Containment Reserve (APCR)  
 120 million allowances today



**After Recommendations:**

Greenhouse Gas Reduction Fund (GGRF)  
 (unchanged)

Unsold Allowances\*

2019	2020	2021	2022	2023
2024	2025	2026	2027	2028
2029				

\*Auctioned evenly across years 2019-2029 (approx. 11 million allowances / year)



Terminate APCR and divide allowances in three buckets evenly

CIF  
 40 mil.  
 CIF: Community Investment Fund

Speed bump No. 1  
 40 mil.

Speed bump No. 2  
 40 mil.

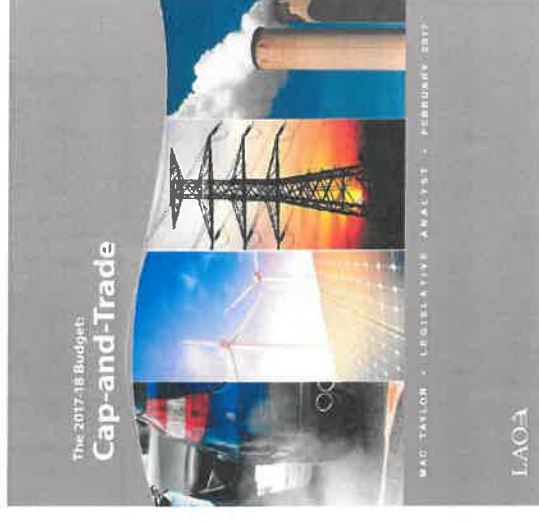
# RECOMMENDATIONS 1 & 2

## 1. Program Extension

- Explicitly authorize the extension of the C&T Program through 2030 and ensure market stability via 2/3 majority vote legislation

## 2. Price Cap

- The APCR currently holds 120 million allowances and is expected to grow to 172 million allowances post-2020. This is the equivalent of \$1.6 - 2.3 billion in forgone state revenues
- Establish a price cap at [\$50.00] per allowance starting in 2018 and escalating at 2% + CPI annually
- Remove the APCR







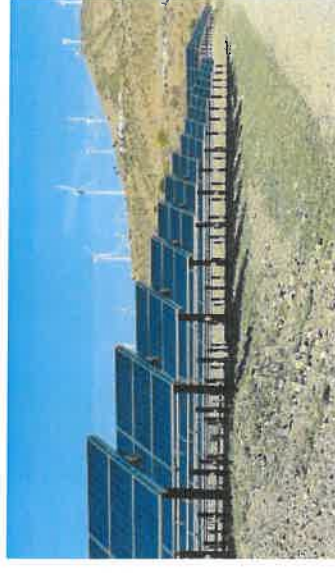
# RECOMMENDATIONS 5 & 6

## 5. ARB Exclusive Jurisdiction and No New Direct Measure

- Grant ARB exclusive jurisdiction over GHG emissions and prohibit ARB and other agencies from imposing new GHG emissions reduction obligations

## 6. Family, Consumer, and Ratepayer Protection

- Continue measures applicable to the second compliance period that provide direct and indirect assistance to industry and utilities
- Maintain a decline in allowance allocation factors no higher the second compliance period
- Distribute electric and natural gas allowance revenues to minimize the net cost impact of the State's climate programs on residents and business, and avoid future job loss
- Allocate allowances associated with electrification or natural gas transportation consistent with the general electric and natural gas allocation structure





# RECOMMENDATIONS 7-9

## 7. Unsold Allowances

- Equally redistribute current or past vintage year allowances that remain, or have remained, unsold for 12 consecutive months back into the allowance budgets between 2019 and 2029



## 8. Speed Bumps

- Create two “speed bumps” and allocate 40 million allowances to each speed bump from the APCR
- The speed bumps would be set at levels 1/3 and 2/3 between the auction floor price and the new market hard cap price



## 9. Price Containment

- Permit compliance entities to bank forward the quantity of offsets they have been permitted to use since the program start and to sell offset utilization limits
- Maintain the current 8% offset usage limit
- Allow more diverse options for offsets and create cost-competitive offsets in California

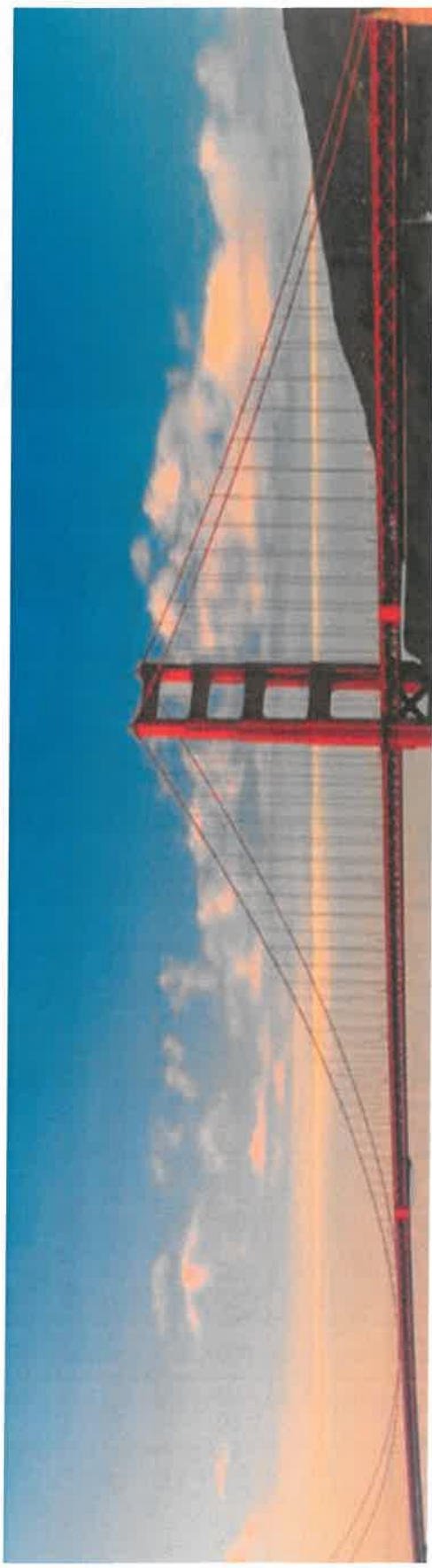
# RECOMMENDATION 10

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## 10. Program Review

- Appropriate adequate resources for and direct the LAO to oversee the preparation of periodic independent economic and sector analyses and ensure accountability of various actors

LAO 



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