CA to Officially Launch Greenhouse Gas System

JASON DEAREN, Associated Press

SAN FRANCISCO (AP) — California's largest greenhouse gas emitters will begin buying permits in a landmark "cap-and-trade" system designed to control emissions of heat-trapping gases and to spur investment in clean technologies.

The program is the most wide-ranging of its kind in the nation and a key part of California's 2006 climate-change law that dictates standards for cleaner-burning fuels, more efficient automobiles, and increased use of renewable energy.

Under the plan, the California Air Resources Board will auction off pollution permits on Wednesday called "allowances" to more than 350 businesses, including electric companies, food processors and refineries.

In essence, the auction will put a price on carbon emissions.

The program also places a cap on emissions spewed by individual polluters. Businesses are required to either cut emissions to the cap levels or buy allowances from other companies for each metric ton of carbon discharged over the cap each year.

Businesses can satisfy up to 8 percent of emissions reductions through the purchase of carbon credits from forestry and other certified projects.

"It is entirely in line with the notion ... that competitive economics in the 21st century is built upon clean and more efficient ways of generating energy, making products and doing business," Mary Nichols, the air board's chairman, wrote in an email.

However, some of the businesses regulated under the plan say the extra costs will result in higher electricity rates and job losses in an economy already struggling to recover. A coalition of business groups has petitioned Gov. Jerry Brown to delay the program — a request he has refused.

"The auction will take place," said Evan Westrup, a spokesman for the governor. "We will be monitoring the program very closely and the Air Resources Board will make modifications as appropriate."

For the first two years of the program, large industrial emitters will receive 90 percent of their allowances for free in a soft start meant to give companies time to reduce emissions through new technologies or other means. The cap, or number of allowances, will decline over time in an effort to drastically reduce greenhouse gas

emissions by 2050.

The board has estimated that businesses will pay a total of $964 million for allowances in fiscal year 2012-2013. About 23 million allowances will be sold for 2013 emissions, and 39.5 million allowances are being pre-sold Wednesday for 2015 emissions.

The state is still unclear about how the money will be used, but California law dictates it go into a greenhouse gas reduction account, and any programs that use the funds be consistent with the goals of AB32, the climate change law.

Some groups have proposed using part of the money to help businesses regulated under the cap to buy and install energy efficient technology to help save money.

While no one believes California's cap-and-trade program alone will remedy climate change, the system is designed to show it can be done in the world's ninth-largest economy and provide a blueprint for other governments, the board said.

Officials believe the re-election of President Barack Obama, who in his acceptance speech voiced support for battling climate change, will embolden states to follow California's lead.

"With the election, we expect states that had dropped their own climate efforts to take a new look at what they can do, and some of these ideas will be adapted or adopted elsewhere," Nichols said.

Business groups say California's regulations and high taxes are already a threat to

their bottom lines, and adding more costs in a bad economy is perilous to growth.

Utilities say ratepayers should expect increases.

The Modesto Irrigation District — which provides its customers with a mix of energy from traditional coal-and-natural gas-fired power plants and renewable sources — said customers will see bills increase in 2013 due to cap and trade.

"We will have on our billing a surcharge that will address cap and trade, and show ratepayers exactly how much more they will pay," said Greg Salyer, resource planning and development manager at the district.

Salyer said the district will not know exactly how much higher rates will go until after Wednesday's auction, which will set prices for each ton of carbon emissions.

Ratepayers will see a bit of relief early on because some of the auction proceeds have been earmarked for return to utility customers. The California Public Utilities Commission will ultimately decide how those rebates are handled next year.

In the end, proponents of California's ambitious new program say the increases in costs will be offset by gains in the state's clean technology sector, and by air quality improvements and other benefits of emission reductions.

That said, even supporters acknowledge that changes in the price of energy are likely to occur.

"We don't want to dismiss the idea that there will be changes to the energy price structure because of a program like this," said Timothy O'Connor of Environmental Defense Fund. "But that's not a reason to throw it out."

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