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## Sustainability & Climate Change Reporter

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### California Releases Cap & Trade Design to An Uncertain Fate

The California Air Resources Board (ARB) has released its proposal for a cap-and-trade [program \(PDF\)](#) just as voters weigh the [pros](#) and [cons](#) of an initiative that, if passed, would put a hold on the statutory basis for the program. While the cap-and-trade design has been in the works for some time now, its fate hinges on the outcome of the November 2 election

#### Program Design

ARB's proposed cap-and-trade would start January 1, 2012, for electricity generators, including imports, and large industrial facilities, then expand to distributors of transportation fuels, natural gas and other fuels starting in 2015. Approximately 360 businesses, representing 600 facilities, would be covered.

The initial cap will be based on a forecast of greenhouse gas emissions for 2012, and will expand in 2015 to include emissions from combustion of fuels. The cap will decline by two percent per year during the initial period and, after 2015, decline by three percent each year to reach a cap in 2020 that is 15 percent below 2012 levels.

Allowances will be free at the outset, but transition to an auction basis. Offsets will be allowed for up to eight percent of a facility's compliance obligation, with offsets to come from forestry, urban forestry, management of livestock manure/methane and removing existing stocks of ozone-depleting substances. Independent verification of the allowances will be required.

ARB's regulations have a framework to link to Western Climate Initiative partner programs and provide a recommendation next year for linking with programs in New Mexico, British Columbia, Ontario and Quebec.

#### Proposition 23

California voters, however, could slam the brakes on the whole process next Tuesday if they approve Prop. 23. That measure would suspend AB 32, the California Global Warming

Solutions Act, which provides the statutory authority for ARB to adopt cap-and-trade regulations, until the state's unemployment rate falls to 5.5 percent for four consecutive quarters. The last time that happened was in 2007 and occurred only three times in the past 25 years.

A Los Angeles Times/USC [poll](#) released on October 25 showed the initiative failing by a 48-32 margin among likely voters. ARB's release of the cap-and-trade program might have an effect on votes. Indeed, perhaps with an eye on the polls, [ARB Chair Mary Nichols](#) characterized the proposed regulations as helping drive innovation, create more green jobs and cleanup the air and environment. "We have worked closely with all interested parties and stakeholders to make sure that the program provides flexibility to reach our emissions reduction goals while taking into consideration the current economic climate and the need to fully protect California's economy." We'll soon find out if voters agree.

Should Prop. 23 fail, ARB's public comment period will run through December 15, 2010, and the Board will consider adoption of the program at its December 16 meeting.

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