



California Energy and Environment Update January 20, 2011

CARB official describes cap-and-trade enforcement and price control mechanisms

According to Kevin Kennedy, Assistant Executive Officer of the Office of Climate Change at the California Air Resources Board (CARB), enforcement of the state's fast approaching cap-and-trade program will come in part by a "surrender obligation rule." Under the rule, emitters that fail to meet their emissions reductions deadlines will be forced to turn in additional offsets or allowances. For example, if an emitter owes the state one offset or one allowance for one ton of emitted carbon and fails to meet their obligation prior to the deadline, the CARB would increase the allowances of offsets owed from one to four.

Kennedy said that CARB will utilize a strategic allowance reserve to help control carbon prices. The plan, which was supported by electric utilities, establishes a backstop against runaway prices by reserving 4 percent of all allowances for CARB to auction off over nine years in the case that carbon prices sharply increase.

Kennedy believes that 85 percent of the state's industrial emissions will be covered by 2020.

Cap and trade program will hurt smaller oil refiners

Credit rating firm Standard & Poor's predicted that the credit ratings of oil refiners with significant operations in California might be downgraded as those companies struggle to recover the costs of purchasing emissions allowances in the state's carbon dioxide market, which begins in 2012.

S&P analysts identified Tesoro, Valero Energy, and Alon USA Energy as the refiners most at risk of earnings volatility and reduced profitability. Larger refiners like BP, Chevron, ConocoPhillips and Exxon Mobil would be less affected because of the scale of their global operations. S&P suggested that California utilities will fare the best, as they can pass their costs on to ratepayers. Utilities also will receive most of their allowances for free at the outset of trading.

Proposed budget shrinks environmental funding

Governor Jerry Brown has released his proposed 2011-12 fiscal year budget that contains \$84 million in cuts for environmental and natural resources programs. The \$127.4 billion spending plan is \$12.5 billion less than the previous year's and is designed to help close the state's \$25 billion budget gap. The proposed budget would reduce general fund support for nearly all state agencies including the California Environmental Protection Agency and the state's Natural Resources Agencies. It would also cut most state workers' pay by 10 percent.

Brown's plan includes an extension of temporary taxes for five years, a move which requires voter approval. The California Legislature would need to first approve the budget in March if it is to go before California voters in June. Theoretically, the deadline by which the Legislature must act on the budget is July 1, 2011.

High cost predicted for electric vehicles in California

According to a study conducted by Purdue University, California drivers could pay the highest electricity rates in the country when charging their plug-in hybrid and battery-power vehicles. This is an unintended consequence of the state's "tiered rate system" which charges higher rates to customers as they use more electricity. California households currently pay 35 percent more in electricity rates than the national average.

The state could move to make electric vehicles more economical by switching to a flat electricity rate system. Power companies have also been pursuing new rate formulas to promote electric car use.

New purchase model to drive deployment of "Bloom boxes"

Fuel cell manufacturer Bloom Energy has unveiled a new power purchase agreement model for its 100 kilowatt fuel cells. Instead of requiring customers to buy the \$800,000 boxes, under the new agreement, Bloom will own and operate the fuel cells. The customer will lock in electricity rates for 10 years. Dubbed "Bloom boxes," the fuel cells generate off-the-grid electricity with natural gas or biofuels combusted through layers of ceramic wafers. Kaiser is buying 4 megawatts of fuel cells for seven of its Southern California facilities. The company expects to reduce its energy use there by 34 percent.

DOJ and California defend EPA waiver to California for tailpipe emissions standards

Attorneys for the State of California and the U.S. Department of Justice urged a federal appeals court to reject a challenge from the U.S. Chamber of Commerce and other industry groups to an EPA waiver granting California permission to issue its own tailpipe standards for new automobiles.

Industry argued that EPA should not have granted the waiver because climate change has been attributed to greenhouse gas emissions from around the world and the state cannot show a compelling local need beyond its interest in prodding action by the federal government. The Justice Department argued that California does have a special interest in addressing climate change: reducing expected climate-related problems with water scarcity, rising seas, and forest

fires. Environmentalists say California's policy sets an important precedent for climate policy and establishes a backstop the event nationwide standards are weakened.

A lingering question is whether the challenge is moot, considering that California decided after all to follow the new federal rules. However, neither side wants the case to be ruled moot, which would vacate the waiver but prevent businesses from challenging the merits of the waiver decision.

Environmental group sues over solar project

The Western Watersheds Project sued the Department of the Interior, the Fish and Wildlife Service and the Bureau of Land Management last week for "fast-tracking" the BrightSource Energy Ivanpah solar plant in California. The lawsuit follows two similar lawsuits filed earlier this month by individual Native Americans and the Sierra Club. Last month, a federal judge granted a preliminary injunction preventing construction on an Imperial Valley solar project, following a suit by the Quechan tribe alleging improper consultation.

John Laird appointed as Secretary for Natural Resources

Governor Brown recently appointed John Laird, a former Assemblyman and environmental champion, as Secretary for Natural Resources. With proposed budget cuts to the state's natural resources programs, Secretary Laird will face difficult funding allocation decisions.

Green job growth rate in California exceeds overall growth rate in 2008

According to a report by nonprofit research group Next 10, the state added green jobs at three times the rate of overall growth during 2008. At the beginning of 2009, the study estimated that almost 175,000 Californians were employed in clean energy or environment-related jobs. It is unclear to what extent that growth continued in 2009 and 2010.