

Cap and trade program gets passing grade

By Alex Breitler

Stockton Record, Tuesday, November 20, 2012

The first auction held under California's ground-breaking carbon cap and trade program was declared a "success" Monday by state officials.

Several businesses with San Joaquin County connections registered to participate in last Wednesday's auction, but the state Air Resources Board released no specifics about whether those businesses actually submitted bids or, if they did, what their price was.

"This is an important milestone for our state as a leader in the global clean technology market," said Mary Nichols, chair of the air board. "By putting a price on carbon, we can break our unhealthy dependence on fossil fuels and move at full speed toward a clean energy future."

Local bidders?

The California Air Resources Board released a list Monday of businesses and organizations that registered to participate in last Wednesday's carbon auction.

The state would not say, however, if these businesses, in fact, submitted bids.

A few with local connections:

- DTE (building biomass power plant at the Port of Stockton)
- Pilkington North America (glass manufacturer in Lathrop)
- Leprino Foods Co. (cheese manufacturer Tracy)
- Northern California Power Agency (Lodi Electric Utility is a member)
- Ripon Cogeneration power plant

Under the cap and trade program, businesses that emit a certain amount of carbon must either reduce those emissions or purchase "allowances," or permits, from other businesses.

All available allowances for next year were sold during the closed-door auction. That's about 23.1 million allowances, each worth a ton of carbon.

The results of the auction set the price at \$10.09 per allowance, just above the minimum \$10 reserve price.

Nichols said that's good news for businesses, some of which have warned of the burdensome cost of complying with the regulation. The state Chamber of Commerce filed a lawsuit to block the program last week, although the auction continued as scheduled.

"We're delighted," Nichols said. "Our goal is to reduce carbon at a good price in a way that is flexible for the companies that are covered. We feel like we're showing that is actually going to work."

State officials said the auction was "competitive," with three times as many bids submitted as the number of allowances available.

State sells out of first pollution permits

Associated Press

In the Stockton Record, Modesto Bee and other papers, Tuesday, November 20, 2012

SAN FRANCISCO (AP) — California sold out of the first pollution permits issued as part of a landmark offensive against greenhouse gases at an inaugural auction that regulators said Monday went smoothly.

The effort to curtail carbon emissions involved the sale of 23.1 million permits — each allowing for the release of one ton of carbon — for \$10.09 apiece, the California Air Resources Board said.

The permit sales last week opened the largest carbon marketplace in the nation and the second-biggest in the world after the European Union. The California air board will hold four such auctions a year.

"By putting a price on carbon, we know we are beginning the process of breaking our dependence on fossil fuels," Mary Nichols, board chairman, said during a conference call with reporters.

The board would not divulge specific figures on how many permits were bought by individual polluters covered under newly instituted caps on carbon emissions. The board does not comment on bidding activity to protect each polluter's strategy regarding use of the carbon market, Nichols said.

However, a sampling of companies that are covered include utilities such as Pacific Gas & Electric Co., petroleum refiners such as Phillips 66 Co. and even food processing companies such as Saputo Cheese USA Inc.

The permits are part of California's so-called "cap-and-trade" program — a central piece of the state's 2006 global warming regulations seeking to dramatically reduce emissions of heat-trapping gases.

Businesses are required to either cut emissions to cap levels annually, or buy pollution permits called "allowances" from other companies for each extra ton of emissions discharged annually.

The cap and number of allowances will decline over time in an effort to reduce greenhouse gas emissions year-by-year.

The final price for 2013 allowances was just nine cents above the \$10 minimum price set by regulators.

"The fact that the prices are clearing a little above the reserve is a good sign that people's fears about out of control costs for cleanup are not justified by the way the market actually worked," Nichols said.

About 97 percent of the allowances were bought by companies regulated under the program, and another 3 percent were bought by financial traders for later sale.

Nearly 40 million permits for 2015 — a year when cap-and-trade widens to include more entities — were also sold in the first auction. About 5.5 million of those allowances were auctioned for \$10 each.

Petroleum refiners, manufacturing companies and other industries have been outspoken opponents of the program, calling it an illegal tax that will hurt California's economic recovery.

The California Chamber of Commerce has filed a lawsuit seeking to invalidate the program, arguing the board does not have the legal authority to collect money for the state.

Some of the money collected by the state will be returned to residential utility ratepayers to help offset an expected rise in their bills due to cap and trade. Other portions of the funds will go to energy efficiency and other projects in low-income neighborhoods.

California's first cap-and-trade auction a sellout

By Dale Kaslerdkasler

Modesto Bee, Tuesday, November 20, 2012

The merchandise sold about as cheaply as possible, yet the auctioneer couldn't have been more pleased.

California's oil refiners and other big industrial polluters paid just \$10.09 a ton for the right to emit greenhouse gases in the state's first-ever carbon auction, state officials said Monday.

The price was just pennies above the \$10 minimum set by the California Air Resources Board. But board chair Mary Nichols said the auction, which kicked off California's "cap-and-trade" carbon market, was an unqualified success.

The auction was held last Wednesday.

Nichols said the closely watched results — released Monday — showed California could put a price on greenhouse gas emissions without having the cost to businesses spiral out of sight.

"Our goal is to reduce carbon at a good price," she said.

Big business groups remain hostile to the state's decision to auction off carbon allowances — at any price.

A low price "doesn't make it any less illegal," said Loren Kaye of the California Foundation for Commerce and Education, an affiliate of the California Chamber of Commerce.

The chamber sued the state last week in a last-minute challenge to the auction, saying it amounts to an unconstitutional tax.

The chamber says it supports the goal of reducing carbon emissions but believes the state should give away all the allowances for free.

While the first auction went on as scheduled, the chamber's lawsuit is aimed at halting future sales.

The state will hold auctions every three months, and the sales are expected to generate upwards of \$1 billion a year in revenue.

One of the auction purchasers, a Southern California oil producer named Signal Hill Petroleum Inc., said it remains wary of the market.

"It's a tax that just ripples through to everybody in California," said Dave Slater, chief operating officer. He declined to say how much Signal Hill spent.

While the price of carbon is low for now, Slater said it could soar in future years, the way wholesale electricity prices in California erupted without warning in 2000.

"It's another expense that our competitors outside the state don't have to pay," said Brett Guge of California Steel Industries Inc. in Fontana, another purchaser of credits.

He warned: "The cost will go up as times go on."

The centerpiece of AB 32, the state's answer to climate change, cap-and-trade works this way: California has set a ceiling on total carbon emissions, with the cap declining slightly each year.

Affected polluters have been given 90 percent of their carbon allowances for free and have two main options for dealing with the remaining 10 percent.

They can reduce emissions or buy the necessary credits, either from the state or on private, secondary markets.

Outside experts said the first auction appears to have worked.

"It definitely seems like a reasonably healthy market," said Lenny Hochschild, a carbon trader at Evolution Markets in San Francisco.

He said it was noteworthy that every single allowance sold out – more than 23 million tons of carbon. "That's a lot of volume to be purchased," he said.

Environmentalists were pleased with the auction, saying a relatively low price on carbon doesn't undermine the goal of reducing greenhouse gases.

"It's the cap that is driving the environmental outcome," said Nat Keohane, a vice president with the Environmental Defense Fund. "The auction was successful in setting a fair price."

Companies bid as much as \$91.13 a ton for allowances in the auction, but it was designed so purchasers could buy at the lowest price that exhausted the supply.

The average bid price was \$13.75.

"We weren't trying to sell to the highest bidder," Nichols said. The goal was "to get the allowances sold to the people who need them."

Nichols said 97 percent of the credits were purchased by the industrial users that need them to comply with the law, as opposed to speculators or traders.

The state released a list of qualified bidders but wouldn't disclose who had actually purchased credits.

A separate auction, for credits to be used in 2015, was less successful. Barely 5.5 million of the 39.5 million allowances were sold, at the minimum \$10 a ton. But Hochschild said those results were of little concern.

Around \$290 million was spent in total on the two auctions.

It's expected the auctions will raise a total of \$1 billion a year, with the cost escalating in 2015. That's when refiners will have to buy additional credits to account for the greenhouse gases emitted by California cars and trucks.

[Merced Sun-Star Editorial, Tuesday, November 20, 2012](#)

Our View: Help clear the air; check before burn

According to the calendar, fall begins in late September, but we all know that November tends to mark the true start of fall in the San Joaquin Valley.

It's also the start of a four-month "check before you burn" season in the valley, when the valley air district restricts use of wood-burning fireplaces and stoves because air quality is poor due to high counts of small particulates. In the first 19 days of this month, Merced and Madera counties haven't had a no-burn day. Stanislaus County has had three and San Joaquin County had only one.

The fireplace restrictions have been around for many years, but every year, some residents gripe about them. Others suggest that there should be more days in which burning is prohibited because they are bothered by the smoke that drifts through their neighborhoods. The particulates can be irritating for some people. For others with asthma and other breathing illnesses they can have lethal consequences.

People who don't have access to natural gas service and rely entirely on wood-burning stoves to keep warm qualify for an exemption. There aren't a lot of those people in the valley, especially in the urban areas. And in newer homes, most of the fireplaces are gas, so they are not subject to burn prohibitions.

Are the current restrictions so tough as to be onerous?

We don't think so when the trade-off is improving air quality for everyone. Also, the San Joaquin Valley Air Pollution Control District makes it easy for people to check on whether it is a "burn cleanly" or a "wood burning prohibited" day. The information is available on the district Web site, www.valleyair.org, and people can sign up for an e-mail alert. It is also available on a toll-free phone line, (800) 766-4463.

The air district is looking at tighter rules for the future and those could severely limit wood burning during the winter. The tighter restrictions are one of several proposals from the valley air district to meet federal air quality standards; a vote could be taken next month, though the tighter restrictions wouldn't take effect until 2014. Information about the proposals is available at www.valleyair.org/Air_Quality_Plans/PM25Plans2012.htm.

For the time being, we urge residents to abide by the burn restrictions and to burn cleanly when they do have a fire in the fireplace. That means using clean, seasoned and dry wood, or opting for a manufactured fire log, which provide the same ambience but burns more cleanly.

And we urge people to consider the incentives that the air district is offering for upgrading to fireplace inserts or cleaner-burning pellet or gas stoves. The cash incentives range from \$100 to \$1,500. Information is available on the Web site.

It's tempting to reminisce about the days when there were no restrictions on fireplace use. Those also were the days when there were far fewer people living in our valley and when we weren't as aware of the health effects of bad air. The particulates from burning in an open fireplace contribute to a valleywide problem, but their impact is greatest on the people who live in that house or nearby. That should be enough to encourage valley residents to check before you burn.