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California, New York exploring additional trading opportunities for Clean Power Plan

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Tools



California appears to be sitting pretty when it comes to Clean Power Plan compliance; the state and the entire West Coast will likely [exceed](#) the emissions reduction goals set by the new carbon rule without having to take any additional steps.

Yet California Air Resources Board spokesman David Clegern told SNL Energy recently that state officials are in talks with other states, including New York, about possibly expanding California's emissions cap-and-trade program and other ways to comply with the Clean Power Plan.

New York's interim and final Clean Power Plan goals

RATE-BASED GOAL*	MASS-BASED GOAL**
Interim period 2022-2029	
1,025	33,595,329
Interim step 1 period 2022-2024	
1,095	35,493,488
Interim step 2 period 2025-2027	
1,005	32,932,763
Interim step 3 period 2028-2029	
948	31,741,940
Final goal 2030 and beyond	
918	31,257,429

Note that states may elect to set their own milestones for interim step periods 1, 2 and 3 as long as they meet the interim and final goals articulated in the emission guidelines. In its state plan, the state must define its interim step milestones and demonstrate how it will achieve these milestones, as well as the interim goal and final goal.

* CO2 rate (lbs/Net MWh)

** Annual average CO2 emissions in short tons.

Source: U.S. EPA

Credit: Cat Weeks



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California's interim and final Clean Power Plan goals

RATE-BASED GOAL*	MASS-BASED GOAL**
Interim period 2022-2029	
907	51,027,075
Interim step 1 period 2022-2024	
961	53,500,107
Interim step 2 period 2025-2027	
890	50,080,840
Interim step 3 period 2028-2029	
848	48,736,877
Final goal 2030 and beyond	
828	48,410,120

Note that states may elect to set their own milestones for interim step periods 1, 2 and 3 as long as they meet the interim and final goals articulated in the emission guidelines. In its state plan, the state must define its interim step milestones and demonstrate how it will achieve these milestones, as well as the interim goal and final goal.

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Source: U.S. EPA

Credit: Cat Weeks

Regulators in New York also confirmed having preliminary Clean Power Plan compliance discussions with California and other state officials at the direction of Gov. Andrew Cuomo. New York is already a member of the Regional Greenhouse Gas Initiative, and is also expected to slightly exceed its emissions target without additional effort. New York Department of Environmental Conservation spokesman Benning DeLaMater said the state is looking at possibly collaborating with the Western Climate Initiative, of which California is a member.

"Regional market-based programs ... have demonstrated the power of markets to achieve substantial emission reductions at a low cost, while creating jobs, maintaining grid reliability, and supporting economic growth powered by increasingly low-carbon energy," DeLaMater said. The goal, he continued, is to enhance these existing trading programs by

building broader, more efficient markets that could enable even greater emissions reductions.

Clegern said the cap-and-trade program in his state is the key to California achieving Clean Power Plan compliance. Other states have reached out to California regulators to discuss how the program was developed and how linkage might work. "Many states are examining more than one possibility for achieving compliance and cap-and-trade is a topic which has attracted interest," Clegern said.

California has plenty of lessons learned to offer states, and Andy Van Horn, principal and managing director with Van Horn Consulting, believes expanding carbon trading markets could offer plenty of benefits to California and New York. "Both California and New York understand mass-based cap-and-trade programs and are champions of the positive role competition plays in the affected electricity and fuel markets," Van Horn said. "Both are aware of the nuances and difficulties posed by wholesale electricity markets, transmission and reliability constraints."

Source: SNL Financial



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Shaping existing markets for the Clean Power Plan

California's Global Warming Solutions Act of 2006 requires greenhouse gas emissions to return to 1990 levels by 2020, or a 15% reduction in emissions that would occur by that date in a business-as-usual case. Looking out even further, California hopes to reduce emissions 80% from 1990 levels by 2050. A cap-and-trade program was established in 2012, enforceable for 2013 emissions.

"It has always been a paramount goal of [the act] to create a regional or national market for carbon allowances. Eliminating carbon emissions in California is only a drop in the global bucket," Van Horn said.

New York, on the other hand, is one of nine members of RGGI, which was the first mandatory market-based emissions trading program in the U.S. to reduce carbon emissions, and the first anywhere to use a cap-and-invest model for reducing pollution, according to the NYDEC. The first control period began in 2009.


Many experts have opined that carbon trading markets are the most [economical](#) way to comply with the EPA's Clean Power Plan. Van Horn is no different, adding that market mechanisms are the "best means to cross state and national boundaries and achieve regulatory objectives at least cost." But Van Horn stressed that monitoring and measurements in protocols and market rules must have "integrity" and be the same in all participating jurisdictions.

Van Horn said that both New York and California have experience with distributed generation, demand-side management and rate-setting and operational issues associated with greenhouse gas emissions trading programs. New York can benefit in an expanded market by tapping into renewable resources that will be difficult to build in the state.

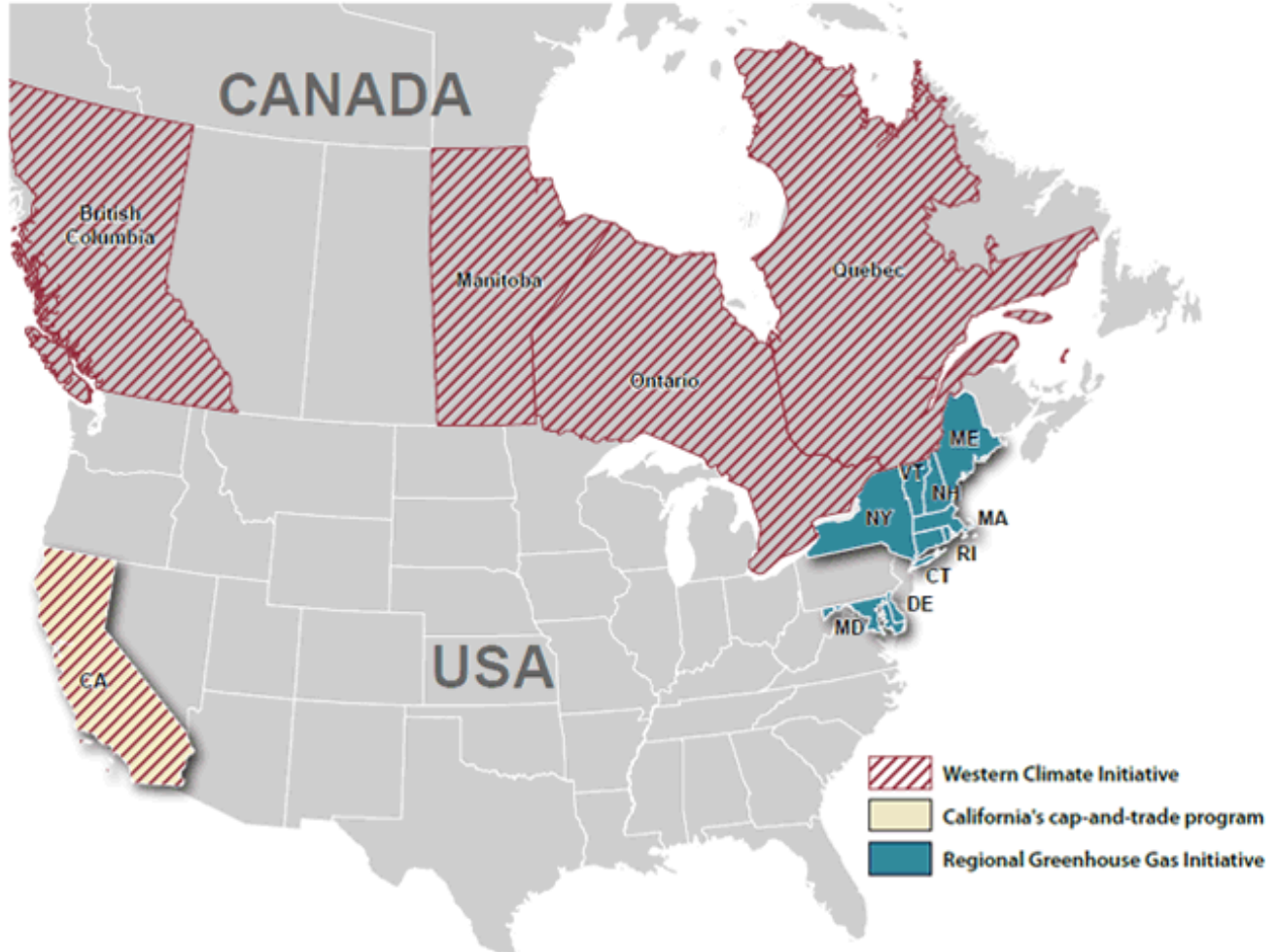
"New York knows that California will continue to be a growing market for renewable power," Van Horn said. "It will be cheaper to build and operate renewable power resources in California and in the western U.S. than to build and operate renewables in New York."

Van Horn said a "fungible" carbon allowance that can be traded across state lines and political borders broadens the scope of reductions, lowers costs, reduces transaction costs and increases incentives to develop new technologies and more efficient processes. The revenue from California's trading program supports measures that could achieve future reductions, as well as low income communities.

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— Andy Van Horn, Van Horn Consulting

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Existing greenhouse gas trading programs



Data as of Jan. 19, 2016.

California and Quebec will hold the WCI's next auction in February.

Ontario and Manitoba continue to plan cap-and-trade programs with the eventual goal of linking to the WCI, while British Columbia has established a carbon tax.

Source: SNL Financial

Map credit: Alip Artates

"Both New York and California have strong financial and investment communities that recognize the advantages of using market mechanisms rather than command-and-control approaches," Van Horn said. "Investors and companies in both states recognize the potential for new products, services and technologies needed to achieve EPA's 2030 targets and to make substantial reductions beyond 2030."

An expanded trading market could smooth out the risks and volatility of year-to-year weather, market and economic changes. This is of particular concern to California, which in recent years has experienced [persistent](#) drought conditions that have impacted the [availability](#) of hydro resources.



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"The California drought means more emissions in drought years and lower emissions in years with abundant hydro," Van Horn explained. "Hence, linking would reduce weather-induced variations in annual emissions, as well as risks due to other factors that affect particular industries and state economies."

The Clean Power Plan offers a compliance option for states that already have their own trading programs, called a "state measures" approach under a mass-based compliance plan. This reflects the fact that the carbon trading programs already operating use a mass-based system. The state measures plan type [accommodates](#) trading programs that may also be trading in other pollutants, too. California's program is an economy-wide cap-and-trade program, so Van Horn says the rules will need to be altered for use in the state's Clean Power Plan strategy.

New York and any other states that end up linking with California will need to carefully analyze their assigned targets and compare them with potential linked regional carbon emissions targets over the carbon rule's compliance period, Van Horn said. Moreover, the states must ensure [leakage](#) of emissions from one source to another will not occur.

Successful linkage for states like New York and California would not only be a critical step in achieving Clean Power Plan compliance, but could resonate across the world, Van Horn said, proving that global carbon markets can function efficiently and achieve significant reductions in carbon emissions.

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