

US GHG Markets – December 2009 (1/2)

Monthly Market Update



Federal

Powerful Farm Lobby to Oppose Climate Change Legislation

Opponents to a Senate climate bill continue to mobilize as Congress kicks off the 2010 Session. Most recently, the Farm Bureau, the most powerful farm lobby with 6 million members, announced at their annual meeting that it was “strongly opposed” to cap and trade proposals currently under consideration by Congress. Furthermore, the Bureau “strongly supports any legislative action that would suspend EPA’s authority to regulate greenhouse gas emissions under the Clean Air Act.” The organization asserts a cap-and-trade bill would convert productive land to forestry and eliminate jobs, while increasing the cost of fertilizers and fuel prices to farmers. The Farm Bureau’s vocal opposition comes just weeks after the organization announced its support for a carbon offsets bill authored by Senator Debbie Stabenow (D-MI), which is widely considered to be the most viable legislative iteration of a carbon offsets program.

Prospects for Bill Passage in 2010

With the start of a New Year comes a renewed focus on passage by the Senate of a climate bill. But time is running short.

This year marks a crucial mid-terms election, and most experts agree in order to get climate change legislation passed in the United States, senators must mobilize on the issue in early 2010. The Senate has much work ahead to get the 60 votes necessary to pass a climate bill, and here are some of the issues driving the process forward:

- KERRY-LIEBERMAN-GRAHAM:** The three Senators remain committed to introducing their own version of cap and trade legislation. It is expected the version they release, which is expected later in January, will likely incorporate a number of significant political compromises in hopes of obtaining Senate passage. These changes from the bill that passed by the Senate Environment and Public Works Committee in November, include language related to increased domestic oil drilling and supporting nuclear power. It is also thought the Stabenow offsets bill will be the language incorporated into the bill on offsets.
- HEALTHCARE:** By any measure the battle to pass comprehensive reform of the U.S. healthcare system has been difficult. And, the process is not over yet. As the debate drags out, less time is available for consideration of a complex issue such as climate change. In addition, the well of political capital was tapped considerably for health care, which will make the arm twisting for a climate bill an even bigger challenge.
- MID-TERM ELECTIONS:** As mentioned above, 2010 is an election year for all members in the House of Representatives and one-third of the Senate. This election has particular significance as it comes in the middle of President Obama’s term of office (and therefore referred to as a ‘mid-term’ election). The results of the election could potentially affect the Democrats’ filibuster-proof 60 seat majority, which would alter the strategy for passing climate change legislation. The looming elections also force policymakers to consider the political implications of voting on controversial legislation such as climate change. Hence, the longer the Senate waits (and closer elections come), the less likely they’ll be able to call a vote.
- EPA REGULATION:** the U.S. Environmental Protection Agency (EPA) was mandated in 2008 by the Supreme Court to use its authority under the Clean Air Act to regulate greenhouse gas emissions. Since the Obama Administration has taken office, the EPA has moved steadily to do this. Many see the specter of regulation as an lever to force the Congress to act on climate change legislation. In fact, most industry groups see EPA regulation of carbon as the top reason for seeking a legislative approach.

Senator Murkowski Mounts Opposition to EPA Carbon Regulation

Senator Lisa Murkowski (R-Alaska) is preparing a legislative battle to oppose EPA authority to regulate greenhouse gas emissions under the Clean Air Act. Sen. Murkowski, the Ranking Member of the Senate Energy and Natural Resources Committee, has an opportunity to submit an amendment to an unrelated bill to be considered on the Senate floor to raise the debt ceiling that would prohibit the EPA from taking steps to implement regulations to curb carbon emissions. Such an amendment would require 60 votes for passage. Even if the provision passes, it is unlikely the House would agree to the language during reconciliation of the debt ceiling bill.

As an alternative, Sen. Murkowski is considering sponsoring a “disapproval resolution” of EPA’s action to regulate carbon. This resolution would send a strong signal to the Obama Administration of the Senate’s unwillingness to permit EPA to promulgate regulations as required under a 2008 US Supreme Court ruling. Such a resolution would require only 51 votes for passage, and would face reconciliation in the House. Action on either the amendment or resolution is expected the week of January 19th.

California

Recommendations from the Economic Advisory and Allocation Committee (EAAC)

The EAAC released another draft report on January 10th containing their final recommendations to the California Air Resources Board (ARB). The EAAC, a 17-member committee comprised of regulatory, financial and economic experts, was established May 22, 2009 by the ARB and the California Environmental Protection Agency. The EAAC’s two main roles are: 1.) to provide input on the evaluation of economic impacts of AB 32, and 2.) to present the ARB with recommendations on the allowance allocation method (and use of allowance value) in the California cap and trade program.

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The following are the main recommendations of EAAC:

1. The EAAC recommends the ARB rely principally and perhaps exclusively, on auctioning as the method for distributing allowances under AB 32.
2. The EAAC noted the only reason to freely allocate allowances would be to address emissions leakage problems associated with energy-intensive, trade-exposed industries. In addition, the committee recommended border adjustments should be used to address leakage rather than free allocation.
3. A uniform price, sealed bid (single round), double auction is a strong candidate for the choice of auction design.
4. Provision of allowance value:
 - Confer value to low-income households to avoid disproportionate adverse economic impact of AB 32;
 - Do not devote any allowance value to electricity consumers as this will not incentivize consumers to reduce electricity consumption;
 - If the ARB chooses to devote allowances value to electricity consumers, it should be through local distribution companies and should be phased out within ten years of passage of AB 32;
 - A significant share of allowance value should go toward financing public and private investment in low-cost emissions reductions, adaptation and environmental remediation;
 - The committee recommends the establishment of an independent Investment Advisory Board to provide the California Secretary of Natural Resources with expert input on investment choices;
 - A fraction of value shall go towards a contingency fund for compensation to any communities that experience increased exposure co-pollutants as a result of AB 32;
 - A “significant portion” of allowance value should be returned to individuals either through lump-sum rebates (under a “cap and dividend” approach) or through cuts in the state’s individual income or sales tax rates; and
 - Finally, some portion of value should be dedicated to Community Benefit Funds to support climate change mitigation and adaptation in disadvantaged communities.

The EAAC will present their final recommendations to the ARB at the next Board meeting in February.

Climate Action Reserve Adopts Nitric Acid Production Project Protocol

On December 2nd the Climate Action Reserve adopted the Nitric Acid Production Project Protocol. The protocol provides guidance to account for, report and verify GHG emission reductions associated with the installation and use of a nitrous oxide (N2O) emission control technology to reduce N2O emissions at nitric acid plants. The protocol is applicable at nitric acid production facilities in the United States.

Verified Emission Reductions (VERs) Offers

| ▼ TYPE | ▼ COUNTRY | ▼ SIZE (tons CO@e) | ▼ VINTAGE | ▼ BID/ASK | ▼ PRODUCT |
|----------------------|-------------|--------------------|-----------|-----------------|---|
| Livestock Methane | Midwest USA | 50k/year | 2009-2015 | \$7.00 / \$9.50 | Climate Action Reserve (CRT's) |
| Landfill Gas | Midwest USA | 75k/year | 2009-2013 | \$6.25 / \$8.50 | Climate Action Reserve (CRT's) |
| Forestry | California | 100k/year | 2009 | \$7.75 / \$8.85 | Climate Action Reserve (CRT's) |
| Coal Mine Methane | Western USA | 25k | 2009 | \$4.00 / \$6.50 | Voluntary Carbon Standard (VCUs) |
| Wastewater Treatment | USA | 100k | 2008-2009 | \$2.50 / \$4.00 | Voluntary Carbon Standard (VCUs) |
| Landfill Gas | USA | 100k | Pre-2009 | \$0.40 / \$0.90 | Registered Chicago Climate Exchange (CCX) Offsets |

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