

News from our Clean Technologies Group

## AB 32—Scoping Plan Approved

**Scoping Plan Document and Appendices:** [www.arb.ca.gov/cc/scopingplan/document/scopingplandocument.htm](http://www.arb.ca.gov/cc/scopingplan/document/scopingplandocument.htm)

### Scoping Plan approved

On December 11, 2008, the California Air Resources Board (ARB) approved the State's scoping plan (Scoping Plan)<sup>1</sup> for reducing greenhouse gas emissions to 1990 levels by 2020, as required by the California Global Warming Solutions Act (AB 32).

### Background

Signed into law by Governor Schwarzenegger in 2006, AB 32<sup>2</sup> established the first comprehensive—statewide and economy wide—mandatory greenhouse gas (GHG) cap in the country, requiring the reduction of GHG emissions to 1990 levels by 2020. In adopting AB 32, the legislature found that global warming poses a serious threat to the economic well-being, public health, natural resources, and the environment of California.<sup>3</sup> By exercising a global leadership role, California seeks to position its economy, technology centers, financial institutions and businesses to benefit from national and international efforts to reduce GHGs.<sup>4</sup> Since AB 32 was signed into law, venture capital investment in the California clean technology sector has soared: In the third quarter of 2008 alone, California received more clean technology venture capital investment than any other region of the world, receiving \$1.1 billion of the global total of \$2.6 billion.<sup>5</sup> AB 32 directs the ARB to develop a scoping plan for

achieving the “maximum technologically feasible and cost-effective reductions” in GHG emissions by 2020.<sup>6</sup>

### Key elements of the Scoping Plan

The Scoping Plan creates a regulatory roadmap for reducing statewide GHG emissions to 1990 levels by 2020, an estimated 30% cut from business-as-usual projections. The Scoping Plan recommends a number of new regulations that will affect the State's economy and, in particular, the clean technology industry.

Key elements of the Scoping Plan include:

- ▶ Expanding and strengthening existing energy efficiency programs as well as building and appliance standards;
- ▶ Achieving a statewide renewables energy mix of 33 percent;
- ▶ Developing a California cap-and-trade program that links with Western Climate Initiative partner programs to create a regional market system;
- ▶ Establishing targets for transportation-related GHG emissions for regions throughout California, and pursuing policies and incentives to achieve those targets;
- ▶ Adopting and implementing measures pursuant to existing State laws and policies, including California's clean car standards, goods movement measures, and the Low Carbon Fuel Standard; and

- ▶ Creating targeted fees, including a public goods charge on water use, fees on high global warming potential gases, and a fee to fund the administrative costs of the State's long term commitment to AB 32 implementation.

### Effective date

The measures recommended in the Scoping Plan will be developed into regulation over the next two years and will go into effect by January 1, 2012.<sup>7</sup> The Governor is authorized to invoke a safety valve and suspend the emissions cap for up to one year in the event of extraordinary circumstances, catastrophic events, or threat of significant economic harm.<sup>8</sup>

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## Regulatory approach

The ARB has determined the State's 1990 level of GHG emissions—the target level—to be 427 million metric tons of carbon dioxide equivalent (MMTCO<sub>2</sub>E). Closing the gap between the target and the significantly higher 2020 “business as usual” projection of 596 MMTCO<sub>2</sub>E is the challenge. The delta between these two numbers—169 MMTCO<sub>2</sub>E—is the amount of GHG emissions that need to be reduced or avoided by 2020. (See Table 1 “By the Numbers.”)

The ARB has divided the State's economic sectors into “capped sectors” and “uncapped sectors.” The Scoping Plan describes approximately 20 major measures, some implemented

sources of GHG emissions—are projected to account for up to 85% of the State's total GHG emissions by 2020.<sup>9</sup> Within the capped sectors, reductions will be accomplished through direct regulations such as improved building efficiency standards and vehicle efficiency standards as well as through incentive programs such as the Million Solar Roofs Initiative (SB 1). Whatever additional reductions are needed to bring emissions within the cap can be accomplished through trading emissions allowances. (See “Cap-and-Trade Program” below.)

## Cap-and-trade program

The Scoping Plan contains details of the much anticipated cap-and-trade program.

process will be determined during the rulemaking process.) ARB expects that California will auction significantly more than the WCI minimum levels and will transition to 100 percent auction.<sup>11</sup>

- ▶ The program phases in starting in 2012 and during the first compliance period will cover electricity (including imports not covered by a WCI partner) and large industrial facilities emitting more than 25,000 MMTCO<sub>2</sub>E per year.
- ▶ Offsets (verifiable reductions of emissions whose ownership can be transferred to others) may be used for compliance purposes if they meet specified criteria. The use of offsets from outside the capped sectors will be limited to 49% of the required reduction of emissions. The ARB is not recommending a geographical limit on the sources of offsets (i.e., they could be from outside CA and/or outside the U.S.)

The ARB aims to design a program that can serve as a model for federal cap-and-trade, and the State will work to ensure that the allowances continue to have value, either in a continuing regional program or within the federal program. ■

## Notes

1 Proposed Scoping Plan prepared by the California Air Resources Board, as modified. *Climate Change Proposed Scoping Plan: A Framework for Change*. October 2008. [www.arb.ca.gov/cc/scopingplan/document/scopingplandocument.htm](http://www.arb.ca.gov/cc/scopingplan/document/scopingplandocument.htm) (accessed December 16, 2008). *Proposed Modifications to Climate Change Proposed Scoping Plan and Appendices*. December 11, 2008. [www.arb.ca.gov/cc/scopingplan/document/psp\\_mods\\_12\\_11\\_08.pdf](http://www.arb.ca.gov/cc/scopingplan/document/psp_mods_12_11_08.pdf) (accessed December 16, 2008).

2 Cal. A.B. 32, 2006 Cal. Stat., ch. 488 (codified at Cal. Health & Safety Code §§ 38500-38599).

3 *Id.* § 38501(a).

4 *Id.* § 38501(e).

5 Press Release from Cleantech Network LLC. *Cleantech Venture Investment Reaches Record of \$2.6 Billion in 3Q08*. October 1, 2008. [cleantech.com/about/press-releases/011008.cfm](http://cleantech.com/about/press-releases/011008.cfm) (accessed December 16, 2008).

6 Cal. Health & Safety Code § 38561(a).

7 *Id.* § 38562(a).

8 *Id.* § 38599(a).

**Table 1: By the Numbers**

(in MMTCO<sub>2</sub>E)

2020 Target (1990 Level of GHG Emissions)	427.0
2020 Business as Usual Estimate	596.0
Amount Required to be Reduced/Avoided	169.0
Estimated Reductions Total	174.0
Reductions from Capped Sectors	146.7
Reductions from Cap-and-Trade Program (Part of Capped Sectors)	34.4
Reductions from Uncapped Sectors	27.3

DATA SOURCE: SCOPING PLAN

and some proposed, in both capped and uncapped sectors. (See “Capped Sectors” below.) These measures include a new cap-and-trade system, increased energy efficiency standards, solar incentives, forest sequestration, the low carbon fuel standard, legislation regulating GHG emissions from cars, and a higher renewable portfolio standard. (See Table 2 “Recommended Greenhouse Gas Reduction Measures.”) Emissions reductions expected to result from these measures close the gap between the State's projected level of 2020 GHG emissions and the target level based on 1990 emissions.

## Capped sectors

The capped sectors—electricity, transportation fuels, natural gas, and industrial

The ARB will implement a broad-based cap-and-trade program that will account for an estimated 34.4 MMTCO<sub>2</sub>E of the required AB 32 reductions (approximately 20%).

Key features of the cap-and-trade program are as follows:

- ▶ The program will be linked to other Western Climate Initiative (WCI) partner programs to create a regional market system.<sup>10</sup>
- ▶ Allowances will be issued by the State based on total emissions under the cap during any specific compliance period.
- ▶ Allowances can be banked for future use.
- ▶ A percentage of the allowances will be auctioned. (The exact distribution

**Table 2: Recommended Greenhouse Gas Reduction Measures<sup>12</sup>**

Recommended Reduction Measures	Reductions Counted Towards 2020 Target (MMTCO <sub>2</sub> E)
<b>Estimated reductions resulting from the combination of cap-and-trade program and complementary measures</b>	<b>146.7</b>
California Light-Duty Vehicle Greenhouse Gas Standards <ul style="list-style-type: none"> <li>Implement Pavley standards</li> <li>Develop Pavley II light-duty vehicle standards</li> </ul>	31.7
Energy Efficiency <ul style="list-style-type: none"> <li>Building/appliance efficiency, new programs, etc.</li> <li>Increase CHP generation by 30,000 GWh</li> <li>Solar Water Heating (AB 1470 goal)</li> </ul>	26.3
Renewables Portfolio Standard (33% by 2020)	21.3
Low Carbon Fuel Standard	15.0
Regional Transportation-Related GHG Targets <sup>13</sup>	5.0
Vehicle Efficiency Measures	4.5
Goods Movement <ul style="list-style-type: none"> <li>Ship Electrification at Ports</li> <li>System-Wide Efficiency Improvements</li> </ul>	3.7
Million Solar Roofs	2.1
Medium/Heavy Duty Vehicles <ul style="list-style-type: none"> <li>Heavy-Duty Vehicle Greenhouse Gas Emission Reduction (Aerodynamic Efficiency)</li> <li>Medium- and Heavy-Duty Vehicle Hybridization</li> </ul>	1.4
High Speed Rail	1.0
Industrial Measures (for sources covered under cap-and-trade program) <ul style="list-style-type: none"> <li>Refinery Measures</li> <li>Energy Efficiency &amp; Co-Benefits Audits</li> </ul>	0.3
Additional Reductions Necessary to Achieve the Cap	34.4
<b>Estimated reductions from uncapped sources/sectors</b>	<b>27.3</b>
High Global Warming Potential Gas Measures	20.2
Sustainable Forests	5.0
Industrial Measures (for sources not covered under cap and trade program) <ul style="list-style-type: none"> <li>Oil and Gas Extraction and Transmission</li> </ul>	1.1
Recycling and Waste (landfill methane capture)	1.0
<b>Total reductions counted towards 2020 target</b>	<b>174.0</b>
Other Recommended Measures	Estimated 2020 Reductions (MMTCO <sub>2</sub> E)
State Government Operations	1-2
Local Government Operations	TBD
Green Buildings	26
Recycling and Waste <ul style="list-style-type: none"> <li>Mandatory Commercial Recycling</li> <li>Other Measures</li> </ul>	9.0
Water Sector Measures	4.8
Methane Capture at Large Dairies	1.0

9 Proposed Scoping Plan, Appendix C-13.

10 WCI partner jurisdictions are: California, Arizona, New Mexico, Oregon, Washington, Utah, Montana and the Canadian provinces of BC, Manitoba, Ontario and Quebec. The WCI has adopted goals to reduce GHGs to achieve a regional emissions target 15% below 2005 levels by 2020 (approximately equal to the AB32 target). See [www.westernclimateinitiative.org](http://www.westernclimateinitiative.org) (accessed December 16, 2008).

11 Proposed Modifications at 7.

12 *Id.* at 2.

13 This number represents an estimate of what may be achieved from local land use changes. It is not the SB 375 regional target. ARB will establish regional targets for each Metropolitan Planning Organization (MPO) region following the input of the Regional Targets Advisory Committee and a public consultation process with MPOs and other stakeholders per SB 375.