

# Carbon Market North America

**PointCarbon**  
NEWS

Vol 3 • Issue 27 • 12 December 2008



## Obama sets energy, environment team

US President-elect Barack Obama has named a cabinet team that will closely link energy and climate change policy.

Obama is said to have selected nominees to head up the Department of Energy (DOE) and Environmental Protection Agency (EPA), as well as leaders of special White House advisory posts. But an official announcement of the full team may not be made until next week, sources say.

Obama will place Nobel Prize-winning physicist Steven Chu at the helm of the DOE. Chu serves as the director of the Lawrence Berkeley National Laboratory, where he has led a mission to "become a world leader in alternative and renewable energy research," according to the lab's web site.

Appointing Chu would fulfill Obama's two stated campaign goals – to highlight the importance of independent science in policymaking and to produce renewable energy in large scale.

"His experience seems to dovetail perfectly with the president-elect's commitment to bringing new energy technology to market in a timely fashion," said Scott Segal, director of the Electric Reliability Coordinating Council.

Obama has pledged to work with Congress to enact legislation to spend \$150 billion over the next 10 years to accelerate the commercialisation of large-scale renewable energy technology.

Obama will also announce Lisa Jackson as the head of the EPA, an agency that will have oversight over a future carbon market in the US.

The former commissioner of New Jersey's Department of Environment, Jackson was instrumental in securing her state's participation in the Regional Greenhouse Gas Initiative (RGGI). She also worked in the EPA during the Clinton administration. Observers have said an official like

Jackson understands the architecture of a cap-and-trade programme and how to implement it.

RGGI states have chosen to auction all allowances in their cap-and-trade system, which begins officially in January.

Obama has said that the cap-and-trade programme he envisages will start off with a 100 per cent auction of emission allowances.

Senate environment committee chief Barbara Boxer told reporters this week that the climate change bill she plans to introduce early next year will give authority to the EPA to develop the rules of the US cap-and-trade system, shifting power out of the hands of lawmakers (see p3).

The president-elect will tap two energy and environment experts to work closely with him in the White House.

Carol Browner will take on a role as an energy "czar," and will be tasked with coordinating energy and climate change policies and the activities of the EPA and DOE. She is currently leading the Obama transition team's review of EPA policy and is a principal partner at the Albright Group, a global strategy firm.

Working during the Clinton years, Browner was the longest-serving EPA administrator. During her tenure, she implemented the first national cap-and-trade programme to reduce sulfur dioxide.

Nancy Sutley, who currently serves as Los Angeles deputy mayor for energy and environment, is set to be the chair of the Council on Environmental Quality (CEQ).

One source said there is currently a debate in the Obama administration as to how the CEQ chair, which helps coordinate and devise environmental policies for the White House, will work with the newly-created "czar" position. Under the Bush administration, the CEQ played a minimal role. That is set to change significantly under Obama, the source said.

## CONTENTS

- 2 RGGI prices and market commentary
- 3 Congressional aides lower expectations for US climate bill
- 3 US cap-and-trade bill could resemble California's: senator
- 4 California adopts climate plan
- 4 US carbon tax gains momentum
- 5 Big emitters must be part of post-Kyoto: Canadian minister
- 5 Global carbon market news
- 6 Guest commentary by Patricia Leeson, Gowlings

### Upcoming conferences 2009

**Carbon Market Insights**  
2009

PointCarbon

**17-19 March 2009, Copenhagen**



**Navigating**  
the American Carbon World

**2-3 April 2009, San Diego**

See [www.pointcarbon.com](http://www.pointcarbon.com) for more information.

**RGGI exchange snapshot (\$)**

Exchange	Contract	Settle	Change
CCFE	Dec 08	3.40	-0.62
CCFE	Dec 09	3.52	-0.63
Nymex	Dec 09	3.55	-0.60

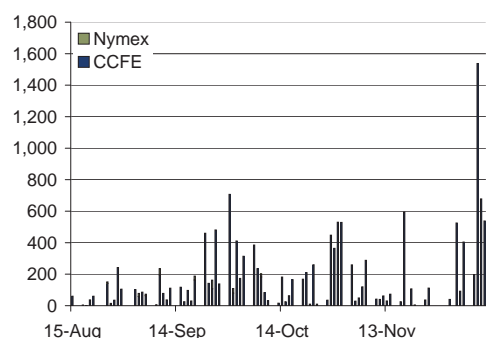
**Point Carbon RGGI OTC assessment (\$)**

Contract	Best bid	Best offer	Close	Change
Dec 08	3.35	3.45	3.40	-0.70
Dec 09	3.45	3.50	3.50	-0.70

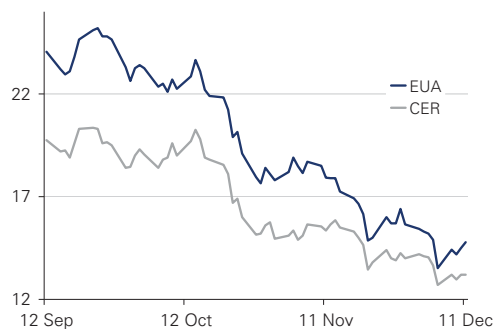
Source: Evolution Markets, Icap, TFS and Tullett Prebon.

Quoted prices are US\$ per short ton of at close of market each Thursday as per Point Carbon's RGGI assessment methodology. Changes refer to the last issue of Carbon Market North America.

For methodology, see [www.pointcarbon.com/news/methodology](http://www.pointcarbon.com/news/methodology)

**Exchange volumes ('000) all RGGI contracts**

Source: CCFE and Nymex

**2008 European and CER prices (€)****Market comment**

RGGI futures took a hit this week as buyers predict allowances will clear near \$3 at next week's auction.

The December 2009 contract closed at \$3.52 on the Chicago Climate Futures Exchange (CCFE) on Thursday, down from a high of \$3.86 earlier in the week and last Thursday's close of \$4.15.

The contract's brokered closing bid and offer was \$3.45 and \$3.50, respectively.

The closing bid and offer for the December 2008 RGGI contract was \$3.35 and \$3.45.

Brokers said bearish market signals have led to the general view the next auction of allowances on 17 December will clear in the low \$3-range.

Market participants pointed to a large volume of \$3 put option trades for the December 2008 contract, signalling that the auction clearing price will be low.

On Wednesday, put options for 1.25 million allowances for December 2008 delivery changed hands on the CCFE at a \$3 strike price.

Adding to the bearish sentiment is concern that the next auction will be flooded with allowances, said brokers.

A total 31.5 million credits will be for sale at the December auction, almost three times the number of allowances that were available at the last auction in September.

One broker said the clearing price at the auction may be even lower than the \$3.07 clearing price at September's inaugural RGGI auction.

"People think the auction will not be as robust as they expected," said another broker.

Weak economic conditions are also leading to overall bearish market sentiment.

The Energy Information Administration projected a drop in US electricity use in 2009 because of the slow growth in new housing construction and reduced demand from the industrial sector.

The fall in electricity use in 2009, combined with an expected increase in use of nuclear, natural gas and wind energy in the US, will lead to a projected 0.2 per cent decline in electric power coal consumption, the government projects.

Trading volume in RGGI futures also increased this week as market players sought to position themselves ahead of the 17 December auction.

The CCFE said it set a new record in trading volume Thursday, reporting 2,188 options and futures contracts trading on the exchange, representing 2.188 million RGGI allowances.

## Congressional aides lower expectations for US climate bill

US lawmakers are 'highly unlikely' to agree on carbon caps before UN climate talks late next year, their aides said at a side event at UN climate talks in Poznan.

Three advisors to lawmakers involved in drafting climate change legislation said the way US makes laws would mean bills to limit carbon will not pass within the next year.

"The US Constitution was written to make it hard for the US to pass laws. That doesn't mean that the US can't do it (pass a law limiting carbon) – it just means that it will take time," said Lorie Schmidt, environmental advisor to Congressman John Dingell, the former chair of the House energy committee.

Other major emitting countries want to be confident that the US will come to UN climate talks next December with commitments that have the backing of Congress, in order to avoid the fate of the Kyoto protocol, which the Senate did not ratify.

"The lesson from Kyoto is that we need a bill first," Schmidt added.

President-elect Barack Obama said he wants the US to bring emissions to 1990 levels by 2020, but this is seen as inadequate by large developing economies China and India.

Key committees in the House and Senate plan to introduce cap-and-trade bills early next year that reflect Obama's climate change goals.

"There will be a lot of details in these bills. They will have to be worked through, including how allowances will be allocated," Schmit said.

Mark Helmke, who consults Republican Senator Richard Lugar of the Senate foreign relations committee on climate policy, told the side event that even though Democrats have at least 58 seats in the senate, passing climate legislation would be "almost impossible" in such a short time frame.

"Not all Democratic senators will want to damage coal industries in their states," said Helmke.

After the Senate failed to pass the Lieberman-Warner cap-and-trade bill this summer, a group of 10 Democratic senators wrote a letter to environment committee chair Barbara Boxer saying they could not support the bill as it was drafted because it didn't address the concerns of manufacturing and coal-dependent states. That group now counts 16 members.

Helmke added that if the US agreed to a treaty at Copenhagen without the prior backing of Congress, it was unlikely to be ratified.

"I am very concerned about the diplomatic fallout (if this

happened). We don't want to create false hope," he said.

Ginny Worrest, who works on climate policy at the office of Republican Senator Olympia Snowe, pointed out that many reservations held by senators about the Kyoto protocol had not yet been addressed, particularly the impact of carbon caps on jobs and competitiveness.

Democratic Senator John Kerry's climate advisor, Kathleen Frangione, was more upbeat about the chances that Congress will back a position that could form the basis of negotiation at Copenhagen, and said she thinks "we will see significant progress next year."

## US cap-and-trade bill could resemble California's: senator

A new US climate bill could take California's approach to cutting emissions, California Senator Barbara Boxer said this week.

Following California's lead would help simplify federal legislation, which the Senate environment committee plans to introduce early in 2009, she said.

In 2006, California's legislature approved AB 32, which set a goal of reducing the state's greenhouse gas emissions to 1990 levels by 2020.

Though the bill gave little guidance for achieving that target, it gave broad authority to California's Air Resources Board (Carb) to develop a plan to achieve the reductions (see p4).

The legislation that Boxer's environment committee tried to advance earlier this year, the Lieberman-Warner-Boxer bill, took a more hands-on approach, attempting to work out all the plan's details – from allowance allocation to the use of offsets – in the bill itself.

When it was defeated, the bill totalled nearly 500 pages, and opponents criticised its complexity.

Speaking to Point Carbon after a press conference Monday, Boxer said it would be up to President-elect Barack Obama to decide which type of bill he prefers.

"I'm providing him and his team with various ways we could write this bill. One is the very structured way that was Lieberman-Warner-Boxer," she said. "The other way is the California approach, which lays out the guidelines and says we will oversee it. It's working well (in California)."

Taking California's approach would give much greater authority to the Environmental Protection Agency (EPA) to develop the rules of the US cap-and-trade system, shifting power out of the hands of lawmakers.

Boxer said she was "very hopeful" that a cap-and-trade bill would pass in 2009, and said she is encouraged by Obama's supportive statements. She said fighting global warming and improving domestic infrastructure would help stimulate the US economy.

## California adopts climate plan

California regulators have greenlighted a blueprint to slash the state's greenhouse gas emissions.

By a unanimous vote, California's Air Resources Board (Carb) on Thursday gave its blessing to the 142-page "scoping plan" to carry out the emissions cuts required by the state's AB 32 law.

California, the nation's most populous state, passed AB 32 in 2006 that called for a return to 1990 emission levels by 2020, a reduction of about 169 million tonnes of carbon dioxide equivalent.

The legislature tasked Carb with designing the blueprint to achieve the goal.

The plan's main feature is a statewide cap-and-trade programme, which regulators hope will be linked to six other western states and four Canadian provinces through the Western Climate Initiative (WCI).

California expects the system will be ready to begin trading in 2012.

The scoping plan also includes new energy efficiency requirements for homes, businesses, and vehicles, and requires that 33 per cent of the state's electricity come from renewable energy by 2020.

Carb Chair Mary Nichols said the plan is only a policy "direction," and said that many of the details will evolve over the next two years.

Regulators will decide, for example, how allowances should be distributed in California's cap-and-trade programme.

Nichols said she expects an "intense process" to design the allocation scheme.

To operate within the WCI, California must auction at least 10 per cent of its allowances. But Carb has indicated that it hopes the state will auction a greater percentage.

The plan also limits the use of offsets and allowances from other emissions trading systems to 49 per cent of the state's required emissions reductions.

Rulemakers will report back to the board at least twice a year on their work, and all final decisions must be approved by the board. Carb promised that the rulemaking process would be open and transparent.

Despite praise for finalising the scoping plan, not everyone was impressed.

Manufacturing and business groups said the plan would negatively impact California businesses, raising energy prices and unemployment at a time when the state can least afford it.

"While we may gain new green business, we must also assess the impact on current businesses," a spokeswoman

for the California Chamber of Commerce said. "The state cannot afford to misstep."

Economic studies of the scoping plan have produced a broad range of results, with some saying it will help the economy and others have said it will do harm.

A spokeswoman for the California Taxpayers' Association said any allowance auction would likely raise more money than is needed to administer the plan, which she said would violate state law.

Some environmental groups also voiced their opposition to the plan, saying the trading of allowances would lead to windfall profits for businesses without achieving any meaningful environmental goals.

## US carbon tax gains momentum

Carbon tax advocates say their cause has gained new momentum amid the global economic crisis.

At a briefing on Capitol Hill, a group of scientists and economists said confidence in the market has been shaken, breathing new life into the carbon tax debate.

They made the case this week that taxing greenhouse gas emissions would be a simpler and more transparent approach than a cap-and-trade system.

James Hansen, the director of the Goddard Institute of Space Studies at National Aeronautics and Space Administration, said the tax needs to be substantial and increase over time.

Gilbert Metcalf, a professor of economics at Tufts University, said that to achieve a 50 per cent reduction in cumulative emissions by 2050, the carbon tax would have to start at \$15 per tonne of CO<sub>2</sub> in 2012, and grow by 10 per cent a year.

Hansen said the public will support the tax if they are assured that 100 per cent of the money they will pay in higher energy bills is returned directly to them, preferably through direct deposits into their bank accounts.

Hansen said that President-elect Barack Obama, a firm supporter of setting a price on carbon, would make an excellent spokesperson for a carbon tax.

"If government would decide to do this, I think (Obama) would be the ideal person to explain it to the public," Hansen said.

Recent legislation for a federal cap-and-trade system sets aside some of the money from auctions for a number of programmes, such as renewable energy and energy efficiency.

"It should not be government deciding that they should invest this in green energy, because they don't know what that will be. Let the marketplace decide that," Hansen said.

## Big emitters must be part of post-Kyoto: Canadian minister

Large emitters like China and India must cut their emissions, Canada's environment minister said.

Jim Prentice, speaking at the UN climate conference in Poznan Thursday, said an effective successor to the Kyoto protocol must include all major greenhouse gas emitters, including Brazil, China, India and Russia.

"Our objective is to reduce carbon dioxide emissions; surely an effective agreement should apply to everybody who emits carbon," Prentice said at a briefing with reporters.

The environment minister reiterated Canada's intention of creating a North American cap-and-trade scheme with the new Obama administration.

However, he declined to specify details of the proposed scheme, including emission-reduction targets.

He added Canada's climate change principles are almost identical to those of the new presidential administration.

US President-elect Barack Obama has said he is committed to creating a national cap-and-trade programme with full auctioning of allowances.

His administration has made no mention of teaming up with Canada to form a North American regime.

Obama's cap-and-trade proposals are part of his policy to reduce US greenhouse gas emissions to their 1990 levels by 2020 - roughly 16 per cent below today's levels - and reduce them a further 80 per cent by 2050.

Prentice claimed Canada's short-term goal of reducing carbon emissions by 20 per cent below 2006 levels by 2020 is actually more stringent than the Obama administration's short-term emission reduction goals.

Canada's long-term goal is to reduce greenhouse gas emissions by 60 per cent by 2050. He did not specify a baseline year.

For a long-term international agreement, countries should agree to cut emissions by at least 50 per cent by 2050, said Prentice.

A UN draft conclusion on further commitments to cut emissions of greenhouse gases by parties to the Kyoto protocol makes no reference to specific cuts, despite calls by developing countries for industrialised nations to act.

Last year the International Panel on Climate Change said that to avoid the worst effects of climate change, rich countries had to cut emissions between 25 and 40 per cent under 1990 levels by 2020.

Developing countries, including South Africa and Brazil, wanted to see such cuts included in a final text to be adopted at the end of the week. But Canada, Australia, Japan and New Zealand said it was too early to commit.

## RECENT GLOBAL CARBON POLITICS

EU leaders will offer more to new member states in a bid to strike a climate deal. Among the latest changes to proposals from the **French EU presidency**, are an increase in the amount of free allowances for utilities in the emissions trading scheme (ETS). A slew of concessions could also be given to sectors like steel, cement and glass in the third phase of the bloc's ETS up to 2020, according to a document seen by Point Carbon.

The **proposal** is being debated by all 27 EU heads of state in an EU council meeting in Brussels which is expected to finalise its position by Friday.

UN negotiators in Poznan have failed to allow **carbon capture and storage** to earn carbon credits. A decision to be adopted by a technical group to the Kyoto protocol states that parties have failed again to agree on its inclusion in the clean development mechanism.

The UN has also dodged a decision on

whether to **tax** emission units from developed countries. At UN climate talks in Poznan, delegates postponed a decision on whether proceeds from emissions trading should be **diverted to a fund** that helps countries most vulnerable to climate change.

**Mexico** will aim to cut emissions 50 per cent below 2002 levels by 2050. The large central American nation is designing a programme that would cap emissions in electricity, steel, cement and oil from 2011. Targets would be voluntary and non-binding, while the overall goal is to stabilise Mexico's emissions at 320 million tonnes of carbon dioxide by 2050.

**Australia's government** faces renewed pressure to delay its emissions trading scheme. Introducing the carbon pollution reduction scheme in July 2010 would not be appropriate, according to Andrew Robb, the opposition spokesman on emissions trading. The

opposition Liberal party has previously said the scheme should be postponed until 2011 or 2012.

**New Zealand** should not increase free allocation of emission rights, the environment ministry said. Upping the amount of emission units to be given out for free instead of auctioned would be the same as increasing taxes in order to "provide assistance to particular parts of the economy," the ministry said in its briefing to incoming Climate Change Minister Nick Smith.

If unsupported, **carbon credits** are likely to fall below €10.00 for much of 2009, a new report by UK government-backed **Carbon Trust** said. Without intervention, prices of emission units would likely average single figures next year, it added. Meanwhile, **Societe Generale** said this week the price of the 2008 EUA could tumble below €12 amid deteriorating economic conditions that could drag oil and then carbon lower.

## GUEST COMMENTARY

### Will Canadian equivalency agreements avoid a patchwork of regulation?

By Patricia Leeson, Gowlings

In March 2008 the Canadian government published a final regulatory framework for industrial greenhouse gas emissions called "Turning the Corner." This federal framework proposal sets out the regulatory structure for intensity-based emission targets and the sectors that must meet these targets. Regulations were promised for the fall of 2008 but nothing has been published to date.

The federal regulatory framework proposal to control GHG emissions by large industrial emitters is likely to be enacted as regulations under the Canadian Environmental Protection Act of 1999 (CEPA). In 2005 the six GHGs were assessed under the CEPA process for determining toxic substances and, by order, added to the list of toxic substances, allowing CEPA to apply to GHGs.

In Canada, constitutional authority to legislate on 'environment' matters is not clearly assigned. Accordingly, provinces and the federal government pass laws in relation to environmental matters where they have the constitutional authority to do so. If a particular subject matter, such as the regulation of emissions of GHGs, is the subject of both provincial and federal regulation, large industrial emitters could possibly be subject to duplicative and overlapping regulation.

For instance, in Alberta, there is already in force the Climate Change and Emissions Management Act and regulation that sets intensity-based targets for GHG emissions for large industrial emitters. To avoid the issue of overlap and duplication, the government of Canada has stated that it "intends to work to reach equivalency agreements with any interested provinces that set enforceable provincial emission

standards that are as least as stringent as the federal standards."

Easier said than done. Under section 10 of CEPA, the federal minister may enter into an equivalency agreement with a provincial or aboriginal government. There must be provisions in place having the force of law that are equivalent to a regulation made under CEPA and provisions that allow for citizens to request investigations similar to the ones that exist under CEPA. If an equivalency agreement is made, the provisions of the CEPA regulation do not apply in the province or territory.

Since CEPA was first enacted over

“ Only one equivalency agreement has ever been entered into with a province.

20 years ago, only one equivalency agreement has ever been entered into with a province. The government of Alberta entered into an equivalency agreement with the government of Canada in 1994 with respect to four CEPA regulations governing toxic substances emitted from pulp and paper mills, secondary lead smelters and vinyl chloride and polyvinyl chloride plants.

Negotiation of the equivalency agreement was protracted because the criteria for 'equivalency' included not only equivalent regulatory standards but equivalent penalties and enforcement measures. Penalties under provincial legislation can never be the same as penalties under federal environmental legislation because the ability to legislate in relation to criminal law is only within the federal constitutional lawmaking authority.

In the end, federal government negotiators accepted a combination of the province's environmental penalty and enforcement provisions and the enforcement policy which contained a public commitment on the part of Alberta to enforce its environmental legislation as sufficiently similar to CEPA penalties and enforcement to satisfy the equivalency criteria.

The federal regulatory framework proposes alternatives to compliance with future GHG regulation by allowing payment into a technology fund and the use of offset credits. Similar, but not identical, alternatives to compliance are available under Alberta's legislation. It is uncertain how alternative compliance would feature in the criteria for equivalent penalties and enforcement measures.

The preamble to the 1994 equivalency agreement recognised that the government of Canada and the province of Alberta intended to enter into the agreement for the purpose of protecting the environment from the release of toxic substances and that each had taken regulatory measures in controlling toxic substances. It is most likely that the federal government will regulate GHGs as toxic substances. But not every province may consider GHGs as toxic substances.

Certainly, Alberta's legislation states that atmospheric carbon and methane are not toxic. This lack of common ground may preclude any effective use of equivalency agreements as an effective tool for removing regulatory duplication and overlap.

**Point Carbon is happy to consider your proposals for commentaries in Carbon Market North America. Please submit ideas to [news@pointcarbon.com](mailto:news@pointcarbon.com)**

## Contacts

---

### Editorial enquiries

Valerie Volcovici  
vv@pointcarbon.com  
Tel + 1 202 289 6553  
Fax +1 202 289 3967

---

### Sales enquiries

Stefanie Rhodes  
str@pointcarbon.com  
Tel +1 202 289 3930 ext. 251  
Mob +1 202 413 5788  
Fax +1 202 289 3967

---

### Other enquiries

Point Carbon  
Main office  
contact@pointcarbon.com  
P.O. Box 7120 St.Olav  
N-0130 Oslo  
Norway  
Tel +47 22 40 53 40  
Fax +47 22 40 53 41

---

### Website

[www.pointcarbon.com](http://www.pointcarbon.com)

---

### Offices

#### Washington D.C.

Point Carbon North America  
900 2nd Street NE, Suite 309  
Washington D.C., DC 20002

washington@pointcarbon.com  
Phone: +1 202 289 3930  
Fax: +1 202 289 3967

#### Boston

Point Carbon LLC  
8 Faneuil Hall Marketplace, 3rd Floor  
Boston, MA 02109

boston@pointcarbon.com  
Phone: +1 617 386 9299  
Fax: +1 617 973 6406

#### Oslo (Headquarters)

Point Carbon  
Akersgata 55, 3rd floor  
P.O. Box 7120 St.Olav  
N-0130 Oslo, NORWAY

contact@pointcarbon.com  
Phone: +47 22 40 53 40  
Fax: +47 22 40 53 41

#### London

Point Carbon London  
Second Floor  
102-108 Clerkenwell Road  
London, EC1M 5SA  
United Kingdom

london@pointcarbon.com  
Phone: +44 (0)20 7253 7878  
Fax: +44 (0)20 7253 7856

#### Kiev

Point Carbon Kiev  
3 Sportyvna Ploscha  
Entrance IV, 4th floor  
Olymp Business Center  
01601 Kiev  
Ukraine

kiev@pointcarbon.com  
Tel: +38 044 499 0308  
Tel/Fax: +38 044 499 0309

#### Malmö

Point Carbon Malmö  
Östra Förstadsgatan 34  
212 12 Malmö  
Sweden

contact@pointcarbon.com  
Phone: +47 22 40 53 40  
Fax: +47 22 40 53 41

#### Tokyo

Point Carbon representative  
2-3 Kandnishiki-cho  
Chiyoda-ku Tokyo  
101-8443 Japan

tokyo@pointcarbon.com  
Tel: +81 80 3170 0094  
Fax: +81 3 3365 5586