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Important California Climate Change Update

Status of AB 32's Critical Scoping Plan

On June 26, 2008, the California Air Resources Board ("ARB") issued its landmark **Climate Change Draft Scoping Plan** pursuant to California's Global Warming Solutions Act ("AB 32" or "Act"). AB 32 required the entire state of California to achieve across-the-board reductions in greenhouse gases ("GHG") to reach 1990 GHG levels by 2020. In real terms, this means reducing GHGs 30% from business-as-usual emission levels projected for 2020 or approximately 10% from today's levels.

How California will achieve this dramatic result will be through implementation of the final Scoping Plan adopted by ARB later this year. That plan provides the blueprint for GHG reductions across a wide variety of economic sectors. According to the Draft Scoping Plan's Executive Summary, the Plan will be designed to "reduce overall carbon emissions in California, improve our environment, reduce our dependence on oil, diversify our energy sources, save energy, and enhance public health while creating new jobs and enhancing the growth in California's economy."

The Draft Scoping Plan was developed by the ARB in conjunction with the Climate Action Team ("CAT") that is made up of 16 state agencies. Within CAT there are 12 subgroups, nine that are sector-specific and three that are multi-sector:

Agriculture*	Cement*	Energy (Electricity & NG)*
Forest	Green Buildings*	Land Use*
Recycling and Waste	State Fleet	Water-Energy*
Economics	Scenarios	Research

* Indicates subgroups HRO follows closely.

Key Elements of the Draft Scoping Plan

- Reliance on existing energy efficiency programs, including building and appliance standards
- Expanding California's Renewable Energy Portfolio to 33%
- Development of California's cap-and-trade program in conjunction with the regional/international Western Climate Initiative
- Targeted Fees (including a possible carbon tax)

If you wish to review the Executive Summary of the Draft Scoping Plan or the Plan itself, please use the following links:

Executive Summary: http://www.arb.ca.gov/cc/scopingplan/document/sp_executivesummary_draft.pdf

Draft Scoping Plan: <http://www.arb.ca.gov/cc/scopingplan/document/draftscopingplan.pdf>

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Key Upcoming Deadlines for Scoping Plan

- **June-July 2008** – Public Hearings on Draft Scoping Plan
- **Early October** – Release of Proposed Scoping Plan
- **November-December 2008** – Final Scoping Plan for adoption by ARB
- **January 1, 2009** – Statutory Deadline for adoption of the Scoping Plan by ARB
- **January 1, 2012** – Measures in Scoping Plan will become effective

Early Action Items

AB 32 required ARB to identify a list of so-called discrete early action reduction measures by June 2007. These reduction measures will be the first reduction measures adopted by the Board. In many cases, these measures were already in the regulatory pipeline at ARB when AB 32 was passed. These measures include the following:

- Landfill methane capture
- Restrictions on commercial refrigerants
- PFC reduction in semi-conductor manufacturing
- SF6 reduction in non-electric sector
- Reduction of high GHGs in consumer products
- SmartWay Truck Efficiency
- Tire Inflation Program
- Green Ports (adopted)
- Low Carbon Fuel Standard

Voluntary Early Actions to Reduce GHG

AB 32's passage brought to a grinding halt many efforts across sectors to reduce GHG voluntarily. This reluctance came about due to uncertainty on how voluntary reductions instituted prior to the various enactments mandated by AB 32 would be credited. To address this legitimate concern and encourage voluntary emission reductions, ARB issued a Policy Statement in February 2008 stating the SP will "ensure the recognition of actions taken to reduce GHG after the enactment of AB 32, and ensure that any credits provided for voluntary early actions are based on emission reduction that are real, permanent, additional, quantifiable, verifiable and enforceable."

Climate Action Registry

To achieve these policy goals, ARB committed to work with the Climate Action Registry to establish a process to document voluntary actions so that the reductions can be considered for credit against AB 32 obligations at a later date. To credit those reductions, the Registry created the Climate Action Reserve "to provide a high, accurate and measurable standard for the national voluntary carbon reduction market." <http://www.climateregister.org/offsets.html>. In addition, ARB has committed to working with interested parties to develop and verify quantification methodologies for the voluntary reductions. The Reserve tracks and registers voluntary GHG emission reduction so clients that have reduced GHG emissions can verify the credits and register them for potential future use when AB 32 is in place.

The Climate Action Registry also released its General Reporting Protocol 3.0 in April 2008 which gives entities the ability to inventory and track current GHG emissions.

California Public Utilities Commission

In March 2008, the California Public Utilities Commission, acting jointly with the California Energy Commission, issued its Interim Opinion on Greenhouse Gas Regulatory Strategies. This important document was designed to provide guidance to ARB on how to regulate the electricity and natural gas sectors in California. The Commissions recommended that ARB adopt a “mix of direct mandatory/regulatory requirements for the electricity and natural gas sectors and a cap-and-trade system that includes the electricity sector.” Note that the Commission did not recommend cap-and-trade for the natural gas sector.

Western Climate Initiative

The Western Climate Initiative (“WCI”) is made up of seven western states (AZ, CA, MT, NM, OR, UT, and WA) and Canadian provinces British Columbia, Manitoba, and Quebec, in addition to WCI Observers that include other western states, Canadian provinces, and Mexican states. It was founded by California Governor Schwarzenegger in 2007, and since that time, has been working diligently to develop a regional cap-and-trade system for its member states and provinces. The goal of the Initiative is a 15% reduction in GHG levels from 2005 levels by 2020. The Initiative committed to a design of a market-based mechanism for reductions by August 2008. The California PUC specifically referenced this Initiative in its Interim Order, so the Initiative plays a big role in the Draft Scoping Plan. The WCI’s draft plan for cap-and-trade is in the process of being released and will be discussed at the third major Stakeholder Workshop on July 29 in San Diego.

Please do not hesitate to call us if you need more information on any of these topics.

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