



Challenges Integrating California's Cap-and-Trade Program with Broad Carbon Markets

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OVERVIEW

- California offset development has been too slow to promote carbon offset project development.
 - California has provided four compliance offset protocols.
 - No process to enable CDM compliance.
- Offsets continue to draw political controversy in California.
 - ARB rules restrict compliance options.
 - Environmental groups seeks to prohibit IOUs from procuring offsets.
 - Eventual size of market for California compliance unclear.

Without appropriate regulatory incentives, broad GHG emission reduction projects will not be developed.

Compliance rules in California are slowing project development.

REGULATIONS AND OFFSET MARKET DEVELOPMENT

- California has released four compliance protocols
 - Livestock
 - Ozone Depleting Substances
 - Urban Forests
 - U.S. Forests
- Although California regulators have broadly discussed linking with the EU-ETS or allowing CDM compliance, there is no timeline to develop protocols.

Regulatory uncertainty and a lack of commitment by ARB significantly limits compliance market activity.

Political pressure is taking its toll on ARB regulatory activity.

CARBON MARKET PRESSURES

- ARB regulations significantly limit the size of the carbon offset market.
 - Inflexible application of compliance limits.
 - Overwhelming bulk of reductions are not market based.
 - Change in state leadership.
- Environmental groups are challenging IOU ability to procure emissions offsets for AB-32 compliance.
 - CEQA argument.

In order to develop carbon offsets, regulated entities must be confident in compliance eligibility.