

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: April 26, 2010
POSITION: Neutral, note concerns

BILL NUMBER: SB 1033
AUTHOR: R. Wright

BILL SUMMARY: Global Warming Solutions Act of 2006: Allowances

Existing law designates the Air Resources Board (Air Board) as the state agency charged with monitoring and regulating sources of emissions of greenhouse gases (GHGs). The Air Board is required to adopt a statewide GHG emissions limit to be achieved by 2020, and to adopt rules and regulations to achieve the maximum feasible, cost-effective GHG reductions. The Air Board is authorized to adopt specified market-based compliance mechanisms to be used for compliance with those regulations.

This bill would require the Air Board, if market-based compliance mechanisms are adopted that include the distribution of greenhouse gas (GHG) emission allowances, defined as authorizations to emit GHG emissions, to sell or otherwise distribute a GHG emission allowance only to a regulated entity subject to the Air Board's GHG emissions limit. The bill would authorize a regulated entity to sell or trade an allowance only to another regulated entity.

FISCAL SUMMARY

The Air Board states that costs to implement this bill would be minor and absorbable. The Department of Finance concurs.

COMMENTS

This bill is intended to limit the eligibility for GHG emission allowances to entities regulated under the requirements of the Global Warming Solutions Act of 2006 (AB 32). The limitation is intended to minimize any economic burden caused by AB 32 implementation by requiring that the GHG emission allowances be allocated only to those entities with compliance obligations under the AB 32 regulations that presumably would be most likely to experience economic harm.

The bill's intent language includes the following statement, "Allowing noncompliance entities to receive, trade, and sell allowances needed by the sources of emissions operating in California may result in market manipulation, a dramatic increase in the state's energy costs, unnecessary added costs to consumers of services, and ultimately a failed program."

The Department of Finance is neutral on the bill, but notes the following concerns:

- It is not clear that limiting the eligibility for the GHG emission allowances only to regulated entities would prevent all potential market manipulation related to the trading of GHG emission allowances. Having a broader pool of eligible participants that might include investment banks and nonprofits could provide more stability and options for regulated participants and better assist the Air Board and the State of California to meet the goals of AB 32.
The bill appears premature in that the Air Board has not yet completed activities required by AB 32 before a GHG emission allowance cap and trade program could be implemented.

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Analyst/Principal Date Program Budget Manager Date
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Department Deputy Director Date

Governor's Office: By: Date: Position Approved
Position Disapproved

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BILL ANALYSIS/ENROLLED BILL REPORT--(CONTINUED)

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Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)							Fund Code
	LA	(Dollars in Thousands)							
	CO	PROP							
	RV	98	FC	2009-2010	FC	2010-2011	FC	2011-2012	
3900/Air Res Bd	SO	No		-----	No/Minor	Fiscal Impact	-----	0115	

<u>Fund Code</u>	<u>Title</u>
0115	Air Pollution Control Fund