

THE CLIMATE IS CHANGING IN CALIFORNIA

WHAT IS AB 32 AND GHG REDUCTION AND WHY YOU SHOULD CARE?

AB 32, a new California law establishes significant mandatory reductions of carbon dioxide, methane, and other greenhouse gases (GHG) from industries doing business in California. Carbon dioxide (CO₂) is the principle GHG being regulated by AB 32.

Every business that operates or sells products in the state will be impacted by the regulations currently being developed by the California Air Resources Board (CARB). Companies doing business in California will have to produce and deliver their goods and services with 25% less CO₂, or may have to simply produce fewer goods. California regulators are already considering how they will ensure that goods produced outside of California will have to meet these requirements.

AB 32 empowers CARB to develop a comprehensive regulatory scheme that's designed to reduce carbon emissions to their 1990 levels. CARB has assigned over 100 new staff to analyze the California economy, and has developed the following schedule:

Step 1: Greenhouse Gas Reduction Target

(Developed by CARB already during 2007)

CARB has already established a reduction target: California's aggregate CO₂ and other GHG emissions will have to be reduced 25% from current levels, in order to meet the legal mandate of reaching the 1990 emissions level by 2020.

Step 2: Mandatory Reporting and Verification

(Developed by CARB already in 2007, 2008 emissions to be reported in 2009)

CARB has established a protocol that will require every industrial stationary source of GHG emissions that exceed 25,000 metric tons annually to verify and report their GHG emissions to the state. More than 800 different facilities are expected to verify and report under this regulation. Companies will be required to determine their 2008 GHG emissions and report them in 2009.

Step 3: Early Actions: Regulations Required on Targeted Businesses

AB 32 requires CARB to act swiftly on 'early actions' that it considers capable of achieving rapid reductions in GHG emissions from certain sources. CARB adopted two lists in 2007, and is already rapidly developing regulations to implement them. Regulations are to go into effect at the beginning of 2010. Areas of regulation include:

- Goods Movement and Transportation
- Land Use & Construction
- Manufacturing and Retail Products

Step 4: Scoping Plan: Initial Statewide GHG Reductions

The Scoping Plan will be CARB's roadmap for eliminating 25% of California's CO₂ emissions between 2012 and 2020. It is the most important

collection of decisions that CARB will make to implement AB 32. The Scoping Plan will include CARB's proposals for emission-reduction mandates, and for market-based mechanisms to reduce GHG emissions across the economy. Market proposals will involve an intense discussion of emission allowances, which are the basic 'currency' with which a market would operate. Under almost any conceivable market system, businesses will have to hold allowances to match their emissions, or reduce their emissions to match their allowances.

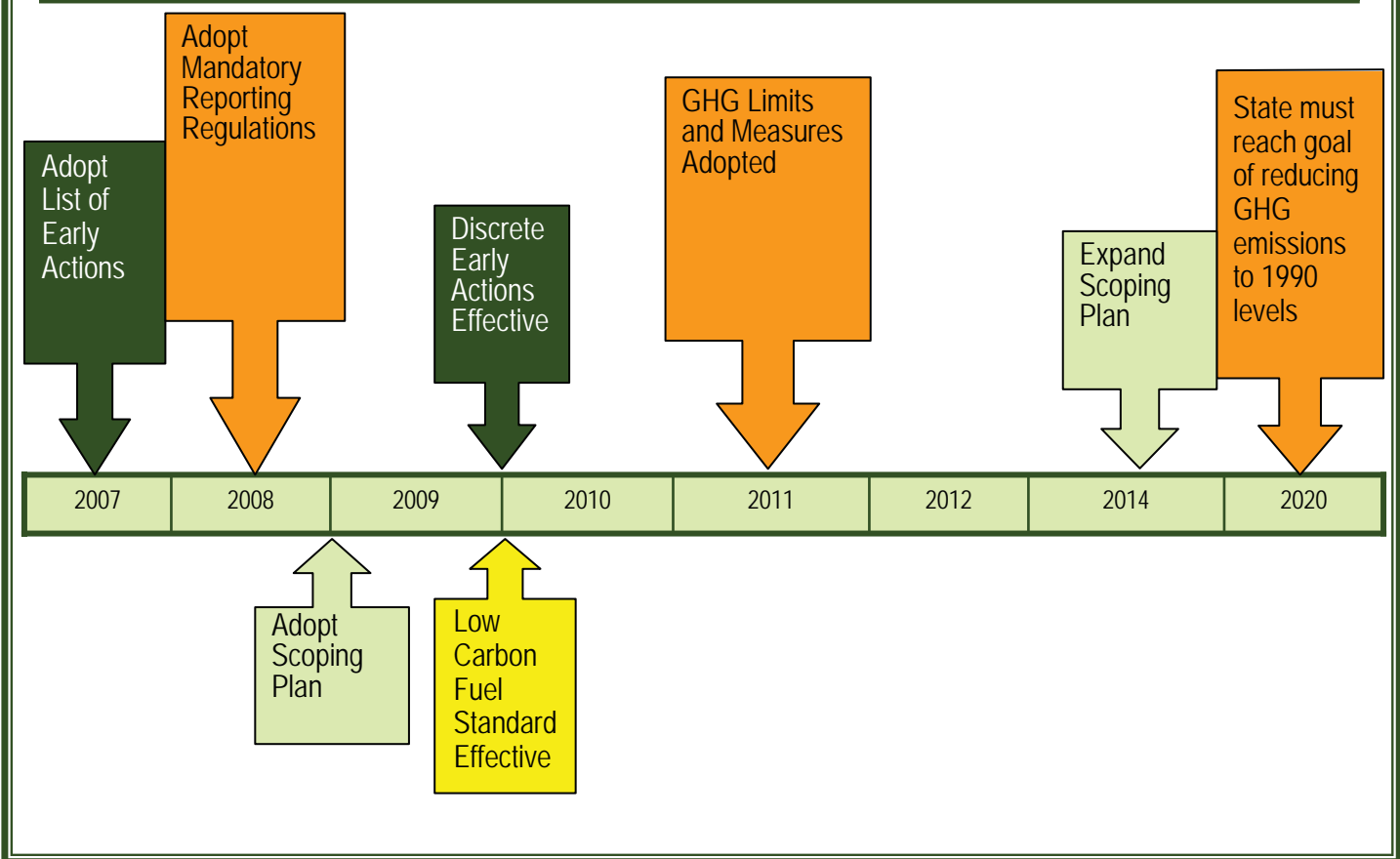
Step 5: Scoping Plan Implementation

While the Scoping Plan is the blueprint, in which high level policy decisions will be made, the Implementing Regulations will contain the detail of the regulatory program. For any mandates or market mechanisms adopted by CARB, regulations will be developed to implement the mandates, and to define the structure and operation of any market and deal with allocation of allowances. These regulations will be developed rapidly and simultaneously, so that they will be in effect before the end of 2011.

Step 6: Scoping Plan takes effect

Businesses will need to know what their new requirements are, how they comply, and what their liability and risk exposures are. They will need to understand how markets and allowances will operate. Those approaching AB 32 with litigation strategies will need to understand the broad outlines of a very complex administrative record. Investors will need to understand how these requirements and markets will affect industries and economic sectors, in order to make sound decisions as the costs and opportunities of GHG regulation unfold in California.

2020 TIMELINE



KP Public Affairs has the staff expertise and the relationships at the regulatory and legislative levels to keep your firm ahead on the climate change issue. By staying on top of the latest AB 32 developments, KP will serve as an extended resource providing your firm invaluable up to date information.

KP'S SERVICES WOULD INCLUDE:

- monitoring daily activity, at the regulatory and legislative levels, of AB 32 and other climate change policy updates affecting California
- attending all meetings held by the California Air Resources Board and other regulatory agencies related to climate change policy
- identifying opportunities and/or impacts to specific industries
- providing updates regarding the timeline and key dates for the implementation of AB 32
- providing key updates on how decision makers are approaching key policy decisions, particularly as staff and leadership transition over time