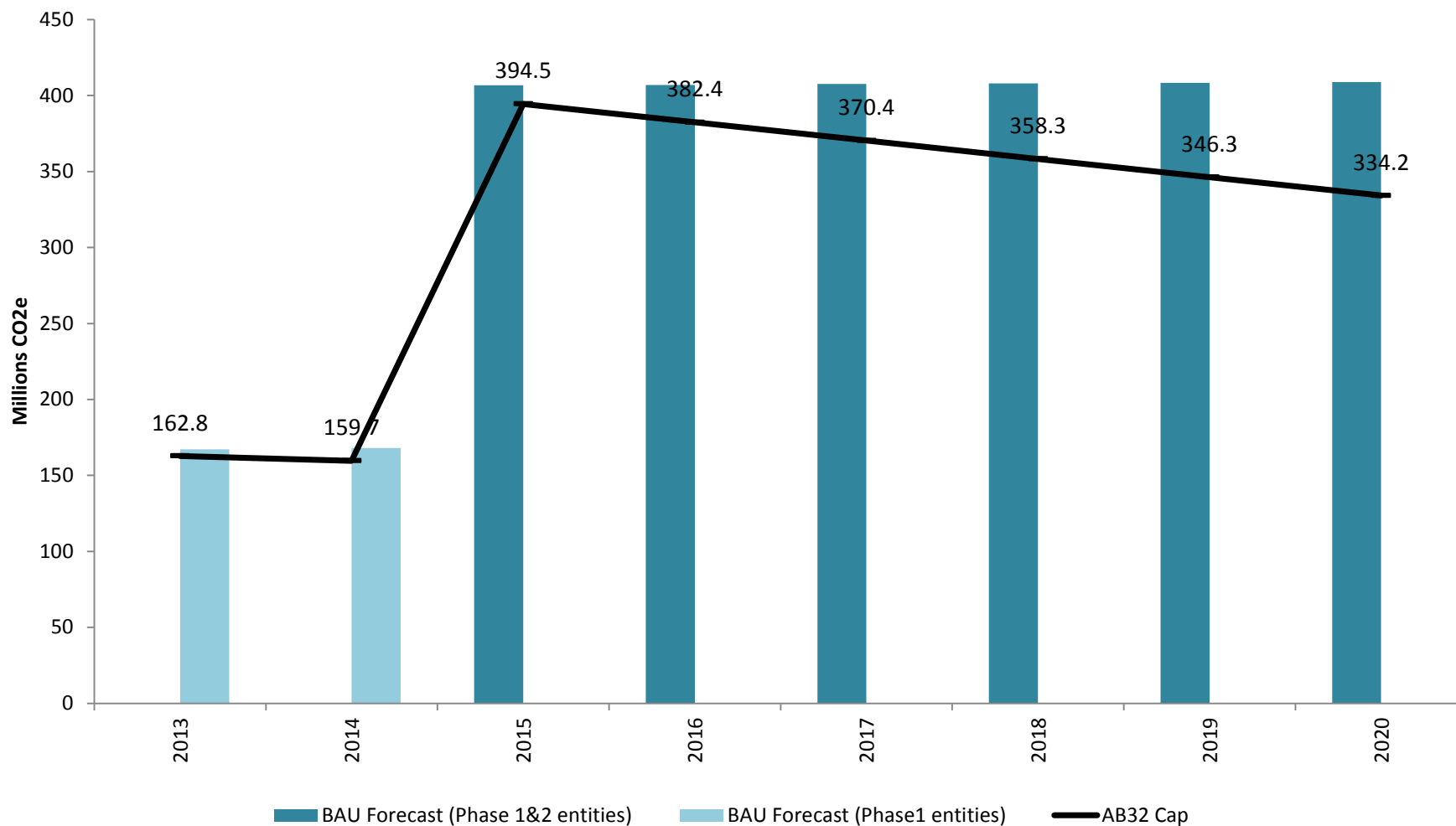


Price Containment in the California C&T Market

Emissions Market Assessment Committee
Quarterly Meeting
September 24, 2012

Forecasted BAU GHG Emissions Compared to the Allowance Cap Covered Entities Only 2013 - 2020

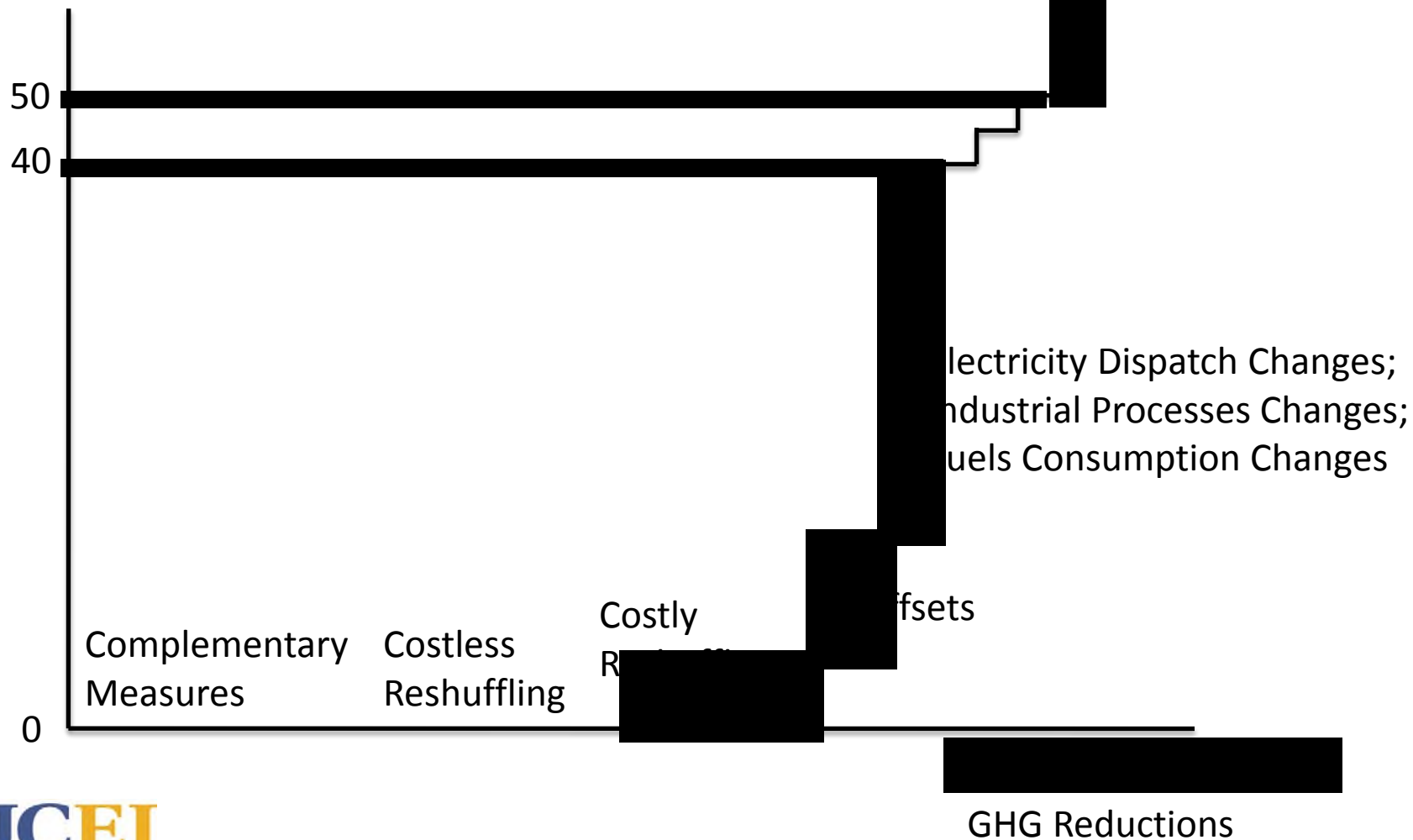


Price Containment Reserve

- CARB sets minimum price at which it will sell permits in auction
- At high price, CARB stands ready to sell permits from a reserve
 - Limited quantities at prices of \$40, \$45, \$50
- If all reserve quantities at these prices were sold and the reserve were exhausted, what would happen?
 - Is unrestricted price rise politically credible?
 - RECLAIM during CA electricity crisis
 - Defending a hard price cap likely to improve market
 - Could be done by borrowing from post-2020

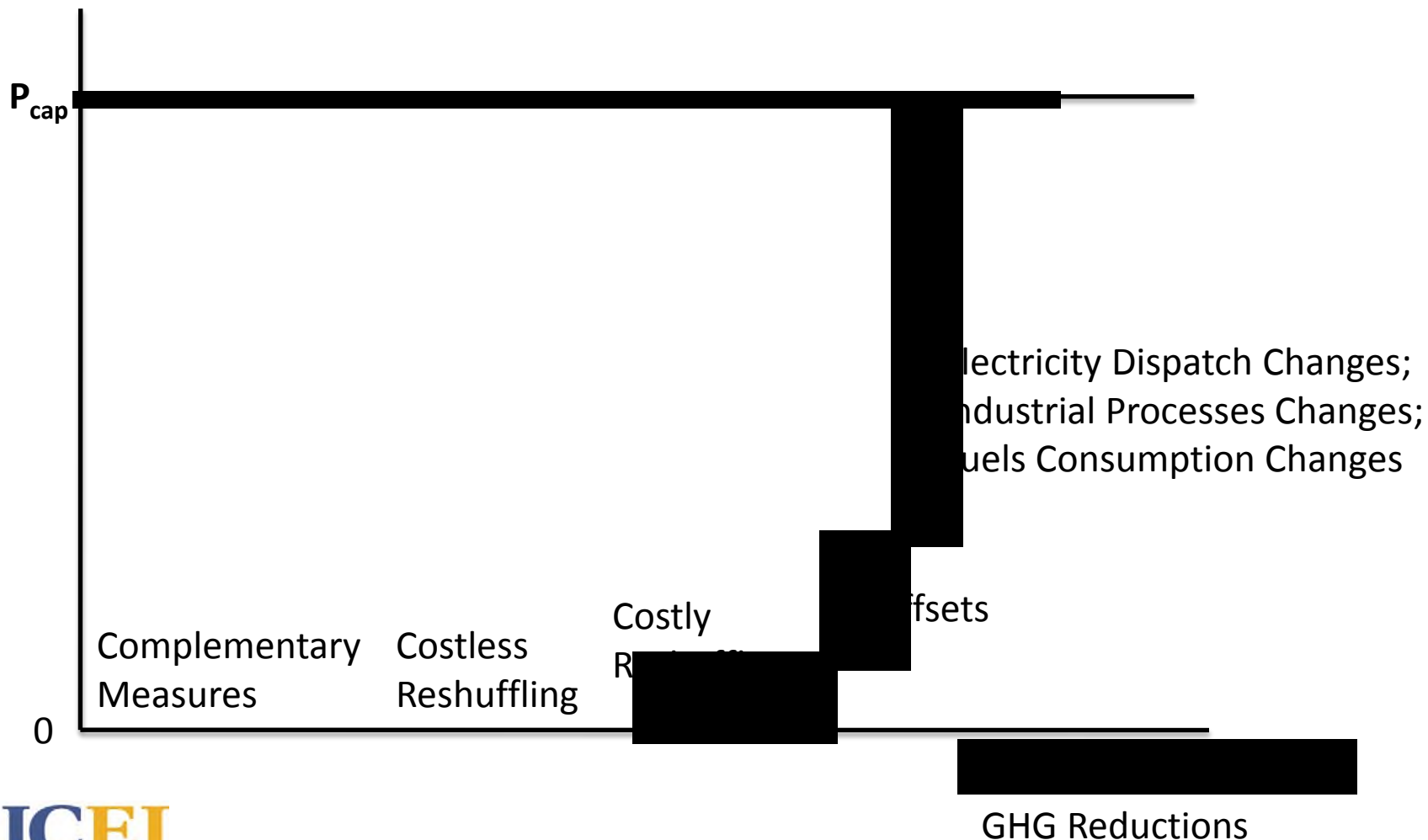
Supply of Abatement with Containment Reserve

Allowance
Price



Supply of Abatement with Hard Price Cap

Allowance
Price



Benefits of Defending a Price Cap

- Limits the possible price and economic impacts from volatility in supply or demand
 - Especially if abatement supply is very inelastic
- Avoids possible market disruption if shortage occurs near end of market period (2020)
- Eliminates price increase that incorporates low probability of skyrocketing price
- Eliminates incentive to push price above current reserve levels through market manipulation

Costs of Defending a Price Cap

- Reduces predictability of California GHG reductions
 - Only if alternative is true commitment to reduction regardless of cost
 - A smooth functioning C&T market is more likely to be expanded to other states and countries