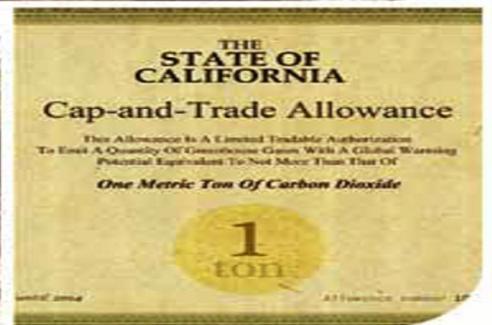
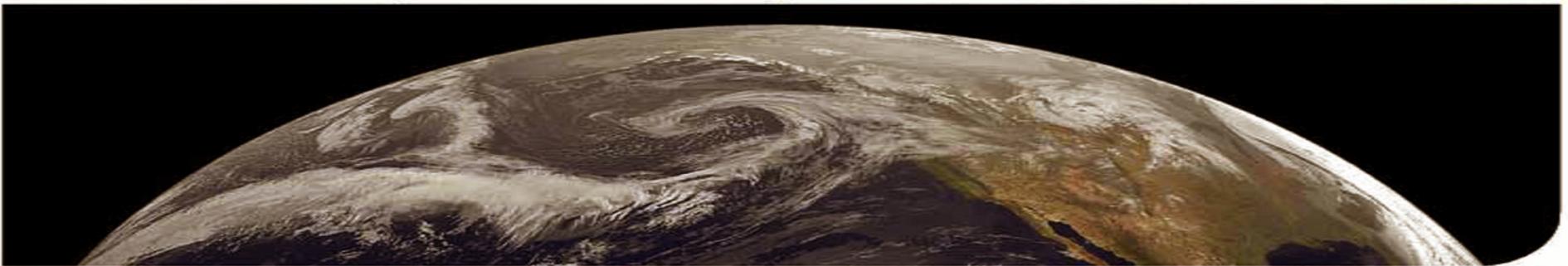


Our Golden State Saving the Planet but Can We Save Ourselves?



Structural Deficit Must be Resolved (We Live from Booms to Busts)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
G F Rev & Transfers	75	74	79	96	96	102	84	86	95	88
G F Expenses	75	75	81	92	102	103	91	87	92	85
Budget Deficit/Reserve	0	-1	-2	4	-6	-1	-7	-1	3	3
ERB Repayment		-2	-3	-3		-0.5	-0.5	-0.5	-0.5	-0.5
Accumulated Deficit	15	14	13	6	12	12.5	19	19.5	16	12.5
Prop 98 Maint. Factor										9.5
Prop 98 Settle Up										3.0
Rolling Deferrals – K-14										10.4
Total Structural Deficit										\$35.4 B



Long-Term Debt (+RAN) increased from \$59B in 2007 to \$90B in 2011

Does Not Include Deficit in Unemployment Ins. Trust Fund = \$10B

Trigger Cuts Sustained Credit Rating

What Will \$6B GO & \$10B RAN Do?

STATE (2010)	MOODY S&P /FITCH	DEBT/ INC Personal	DEBT PER CAPITA	DEBT AS A % OF STATE GDP
Texas	<i>Aaa/AA+/AAA</i>	1.4%	\$520	1.05%
Michigan	<i>Aa2/AA-/AA-</i>	2.1%	\$748	1.96%
Pennsylvania	<i>Aa1/AA/AA+</i>	2.3%	\$938	2.13%
No. Carolina	<i>Aaa/AAA/AAA</i>	2.3%	\$765	1.80%
Ohio	<i>Aa1/AA+/AA+</i>	2.4%	\$933	2.29%
Florida	<i>Aa1/AAA/AAA</i>	2.9%	\$1,123	2.80%
Illinois	<i>A1/A+/A</i>	4.4%	\$1,856	3.79%
California	<i>A1/A-/A-</i>	5.6%	\$2,362	4.73%
New York	<i>Aa2/AA/AA</i>	6.5%	\$3,135	5.36%

CARB to the Rescue?



- **Monetizing Pollution – Creating Fiat Currency**
- **Rationing - allocating free and auctioned "pollution" certificates decreasing "free" over time**
- **Key energy, water and manufacturing industries targeted (oil producers, refiners, electricity generators, food processors and other large industries producing more than 25,000 metric tons of CO₂ e per year)**
 - **Agriculture and Forestry – exempt; regulated separately**

AB 32 Implementation Big Shoes to Fill?



Assumes CARB can:

- Increase the price of energy (rationing)
- Monitor and control business losses (Leakage)
- Hold down costs for consumers (PUC rebate)
- Control market manipulations (admits no control over derivatives)
- Protect local municipalities (water, power)
- Award distributors of electricity and punish generators including UC, CSU w/o an “ENRON 2”
- Exempt some “covered entities” from compliance
LA DWP, San Diego Water, etc. large GHG emitters

Wall Street Bankers Dream! California Boom & Bust?



Commodities Auction - certificates sold to covered entities

Quarterly auctions - current year and "vintage" allowances (used 2015 and beyond)

Banked allowance certificates for future use or trade

Secondary market for unused or offset credits

Derivatives to hedge exposure (price, compliance and ???)

Synthetic Derivatives to hedge a hedge

Monetizing future revenue stream for cash or debt (collateral for HSR, RANs)

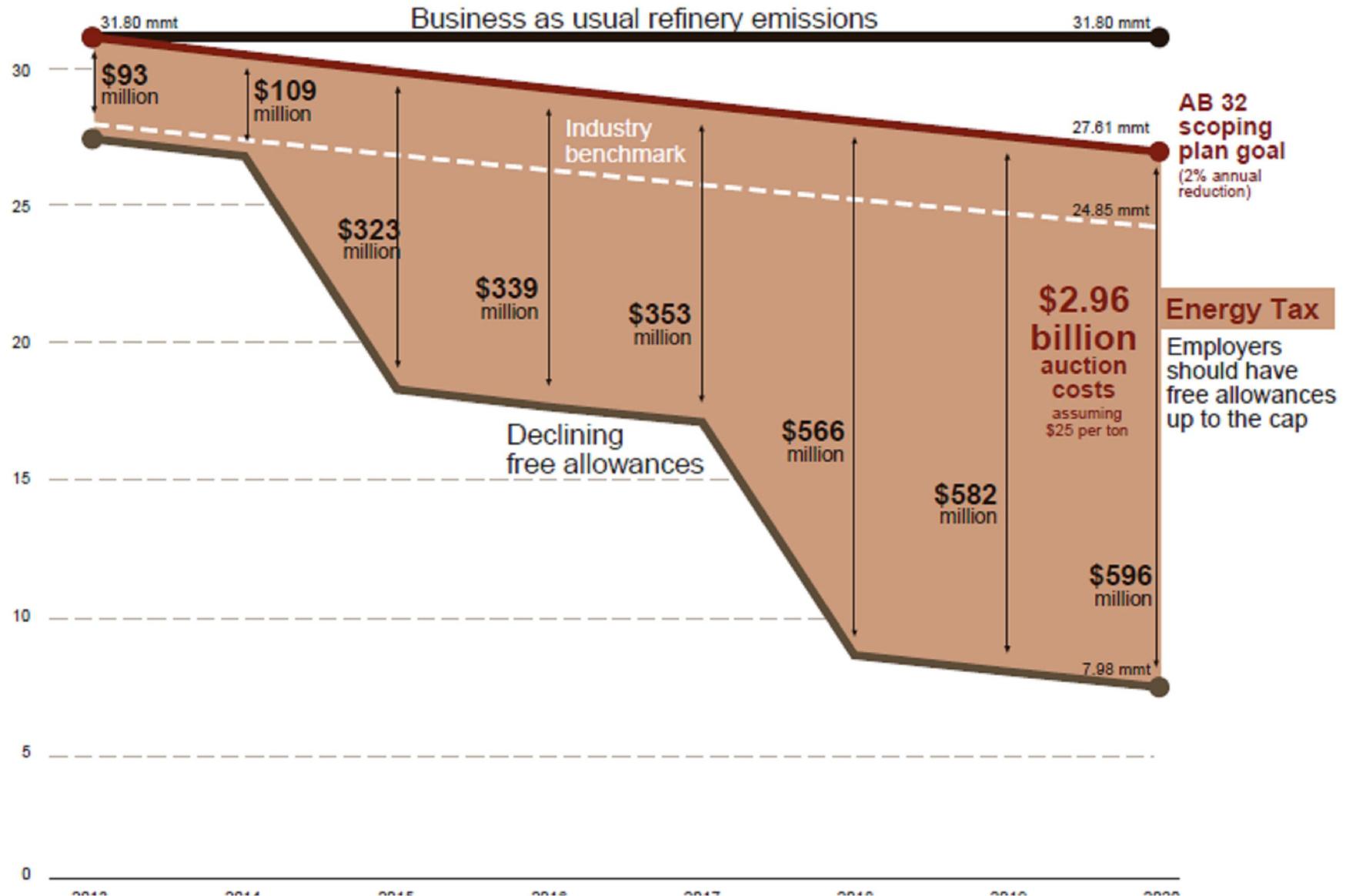
AB 32 - GHG Reduction or Revenue Generator?

- **Cap & Trade CA & Quebec - 2020 GHG goal of GHG at 1990 level - Initial price estimated between \$10 and \$50 per allowance; price increases over time.**
 - \$1B Budget Revenue 2012-13
- **RGGI – East Coast cooperative effort (Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island, and Vermont)**
 - Goal - reduce CO2 emissions from the power sector 10% by 2018.
 - June 8, 2012 clearing price \$1.93
- **British Columbia – Cap and Tax (credits>rev)**

CARB's auction will cost refiners \$2.96 billion

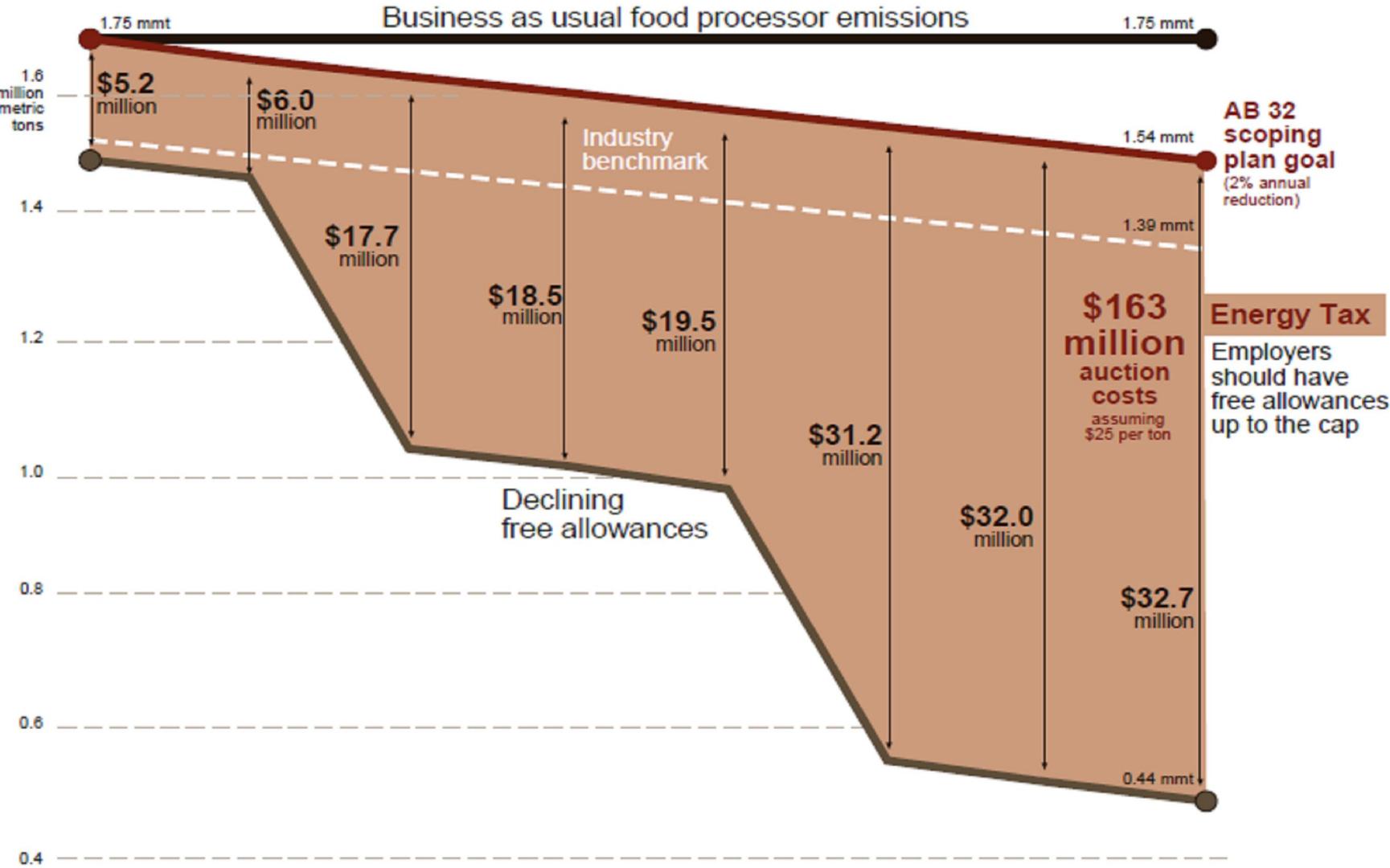
2013 - 2020

35 million metric tons



CARB's auction will cost food processors \$163 million

2013 - 2020



WCI, Inc. – Who?

Oct. 28, 2011 – Delaware Corp - Not subject to Public Contract Code or Legislative oversight. Members:

State of California

- James Goldstene — Chair - *Executive Officer, CARB*
- Matt Rodriguez — Director- *Sec.Environmental Protection, CalEPA*

Province of British Columbia

- James Mack — Director - *Head, Climate Action Secretariat*
- Tim Lesiuk — Secretary - *Executive Director, Business Development and Chief Negotiator, Climate Action Secretariat*

Province of Québec

- Robert Noel de Tilly — Vice Chair - *Senior Policy Advisor, Climate Change Office, Ministry of Environment*
- Jean-Yves Benoit — Treasurer- *Economist, Climate Change Office, Ministry of Environment*

WCI, Inc. – Why?

Section 3. Purpose. The exclusive purposes for which the Corporation is formed are:

- **To provide technical and scientific advisory services to States of the United States, Provinces and Territories of Canada to develop and collaboratively implement GHG programs;**
- **To perform any other charitable or scientific function related to the reduction of GHG or increase in carbon sequestration;**
- **To perform any other charitable or scientific function related to emissions trading programs or other programs with the purpose of improving environmental quality.**
- **YIKES!!!! California cannot enter into treaties with foreign nations but WCI, Inc. may on our behalf?**

WCI, Inc. – Broad-Based Powers

- To solicit, collect, accept, hold, invest and administer contributions, gifts, bequests, devises, benefits of trusts and property of any and every kind whatsoever **without limitation as to amount or value**
- To use the income or principal thereof in the furtherance of the purposes of the Corporation;
- To sell, transfer, exchange, to hold, invest and reinvest property; apply income and principal thereof to further its purposes and objects;
- **To enter into, make, perform and carry out contracts for any corporate purpose, without limitation as to amount, with any person, firm, association, corporation or body politic;**
- **To do any and all acts and exercise any and all powers either as principal, agent, contractor or otherwise and either alone or in conjunction with any other person, or corporation, including any governmental agency;**
- To hold directors and appointed committees (1 or more officers) meetings and to **keep its books in any part of the world;**
- Alone, or **with or through** other organizations or persons, to do anything legal to further, accomplish or attain goals of Corp.

SB 1018 – Budget Trailer Bill?

Section 22—WCI Expenditure Criteria and Linkages

- **CARB to provide notice** of expenditures over \$150,000 WCI, Inc. no later than 30 days prior to transfer or expenditure
- **2 non-voting members** of WCI, Inc. appointed by the Legislature; Voting members: CARB Chair and CalEPA Secretary (semi-annual report to JLBudget Committee?)
- **Exempts WCI, Inc., and its members from provisions of the Bagley-Keene Open Meetings Act;**
- Governor to approve any cap-and-trade linkage with any other state, province, or country only if the jurisdiction has adopted program requirements GHG reductions equal to or stricter than AB 32;
- AG determination of state's liability due to linkage
- No Mention - CARB Market Surveillance Committee (Members should inc. CALISO, Treasurer, etc.)

Who's in Charge?

WCI, Inc. linked Ca and Quebec on June 28th

- **Start-up funding directed from California to WCI, Inc. through Western Governors Assoc**
- **The Administration budgeted \$3.7 million to WCI, Inc. through December 2013**
- **CARB has begun paying WCI, Inc. for contracting outside of the state contracts rules**
- **WCI, Inc. may be engaging in policy not authorized by Legislature for specific offset protocols**
- **Legislature has no authority over WCI or its contracts and cannot withdraw unilaterally from contract with Quebec**

We Are Getting Fleeced

- **Cap & Trade Increases State Spending, Regulators, and Investment Bank Revenues**
- **Decreases Private Sector Employment**
- **Increases Costs of production, electricity, water and cost of living in CA;**
- **Risk of Wide range of revenues or losses; market manipulation; Leakage**
- **Pollution goals could be unmet**
 - California businesses pay for offsets in other countries
 - No allowance for CA company growth
- **Quebec benefit from link to CA = offset credits**
 - Ca benefits from Quebec how?

What We Cannot Afford To Do



Working Toward Solutions Knowledge is Power

- **Assemblymember Harkey:**
www.assembly.ca.gov/harkey
- **Leakage: AB 32 Implementation Group**
www.ab32ig.com
- **California Manufacturers and Technology Association:** www.cmta.net
- **Ca Legislative Analyst:** www.lao.ca.gov
- **California Air Resources Board:**
www.arb.ca.gov/cc/cc.htm