

Proposed Amendments to the Cap-and-Trade Regulation

California Air Resources Board
June 28, 2012

Presentation Outline

- Cap-and-Trade Program Update
 - Status of Implementation for key elements
- Proposed Amendments to the Cap-and-Trade Regulation
- Staff Recommendation

Background

- AB 32 requires ARB to achieve a target greenhouse gas emissions level in 2020 equivalent to the 1990 emissions
- Scoping Plan includes a suite of measures to achieve 2020 target
- Cap-and-Trade is key element of Scoping Plan
- Declining cap on emissions ensures that California meets the AB 32 target
- Creates an economy-wide carbon price that drives investment in clean and efficient technologies

Cap-and-Trade Rule Development Process

- Three year development and consultation process
 - Dozens of meetings and workshops
 - Thousands of public comments
- December 2010 - Board endorsed the proposed regulation, with modifications
- October 2011 – Board adopted Final Regulation Order
- Development of Program Improvement and Linkage Regulations
 - Two workshops in February and April
 - Extensive consultations with stakeholders and WCI jurisdictions

Cap-and-Trade Implementation Systems Development

- Registration Tool
 - Registration and account application available in July
 - Testing conducted with stakeholders in April
 - Training will be available in July before registration
 - Help Desk contact on ARB web site
- Auction Platform
 - Testing: Practice auction in late August
 - Auction Notice: September 17
 - Auction: November 14 – California allowances only

Cap-and-Trade Implementation Program Monitoring

- Market Simulation Group
 - Will conduct simulations to stress test the regulation
 - Met with stakeholders in June to identify concerns
- Market Surveillance Committee
 - Will provide independent analysis and advice to ARB
 - Will meet with stakeholders to address their concerns
- Market Monitor
 - Coordinating with contractors
 - Reviewed proposed amendments

Cap-and-Trade Implementation Offset Program

- First session of registry and offset verifier training completed this week
- Two approved offset project registry applicants
- Additional offset verifier training this summer and fall
- Initiate public process for potential development of two compliance offset protocols:
 - Rice cultivation
 - Destruction of fugitive coal mine methane

Update on Board Direction from Resolution 11-32

- Electricity deliverers
 - Workshop May 4
- Market Simulations Group
 - Public meeting June 7
- Leakage risk analysis
 - Developing contract with UC
- Benchmark development
 - Contract with Ecofys

Update on Board Direction from Resolution 11-32

- Specific issues
 - Holding limits—Working with Market Simulations Group and Market Surveillance Committee to evaluate
 - Water agencies and public universities—Active discussions, evaluating potential use of proceeds to support reduction activities
 - Legacy contracts—Active discussions with counterparties. Planning public workshop in the Fall
 - Electrical distribution utility allocation—Working with CPUC to ensure equitable ratepayer benefits while maintaining appropriate incentives to reduce emissions

Proposed Regulatory Amendments

- Two sets of proposed amendments will be discussed:
 - First set of proposed amendments focus on program implementation and security (non-linkage amendments)
 - Second set of proposed amendments focus on linkage (i.e., allowing the interchange of compliance instruments between the California and Quebec cap-and-trade programs)

Proposed Amendments General Implementation

- Change to Auction Schedule
 - First auction – November 14, 2012
- Covered Entities Requested Account Simplification
 - Consolidate accounts for entities with direct corporate association
 - Holding and purchase limits applied at the consolidated account level
 - Flexibility to opt-out

Proposed Amendments to Increase Registry Integrity

- Registration limited to entities and individuals in the United States
- Expanded documentation requirements weigh know-your-customer effectiveness versus collection of personal information
- Local service agent for entities not located in California
- Individuals with criminal backgrounds excluded from registering onto the tracking system – 5 year look back

Proposed Amendments to Implement Transfers

- “Push-push-pull” model to mitigate against theft or other unauthorized transfer
 - Two account representatives to initiate a transfer of compliance instruments
 - One account representative for destination account confirms transfer
- Clarification of deficiencies and information requirements for transfers

Proposed Amendments

Market Integrity Issues

- Removal of “Beneficial Holdings” language to reduce oversight complexity
- 40% purchase limit for utilities
 - Previously exempt
- Process to adjust exemptions to the holding limit if significant increases in emissions
 - Gives flexibility to emitters with new facilities or fluctuating emissions
 - Needs Executive Officer review and approval

Proposed Amendments Auction Mechanics

- Additional detail on auction mechanics
 - Three-hour bidding window
 - Processing order for different bid guarantee types
 - Process for tiebreaks
 - One current vintage and one future vintage auction each quarter
- Similar financial mechanics for Price Containment Reserve Sale for consistency between sales

Proposed Amendments Linkage

- A broader program increases market liquidity and offers more opportunities for emission reductions
- Create joint market program between California and Quebec
- Allow California entities to use Quebec issued allowances and offsets for compliance and Quebec entities to use California issued allowances and offset for compliance
- Once programs are joined, full fungibility of all issued allowances and compliance offsets issued by each jurisdiction
- Board notification and public review, at least annually, and prior to significant changes in linked program

Quebec Program Summary

- Bill 42 – Requires Quebec to address climate change
- Western Climate Initiative Partner
 - 5 years of coordination between WCI partners
- 2020 greenhouse gas target is 20% below 1990 levels (program is more stringent than AB 32)
- Existing mandatory reporting and cap-and-trade regulations
- Recently released draft amendments to harmonize with California's mandatory reporting and cap-and-trade regulations and facilitate linkage
- Formal adoption of draft amendments this September

Quebec Program Mandatory Reporting

- Similar scope for reporting sectors and thresholds for leakage monitoring and inclusion in cap-and-trade
- Reporting methods consistent with California's reporting methods
- Requirements for third-party verification
- Draft amendments strengthen existing missing data provisions

Quebec Program Cap-and-Trade Regulation

- Covers largest emitters and electricity importers
- ~ 80 covered entities
- ~ 15% of total joint market emissions
- Identical holding and purchase limits
- Quarterly auctions and Allowance Price Containment Reserve sales
- Three-year compliance obligation, no annual requirement
- Similar know-your-customer requirements
- Equivalent enforcement ability

Quebec Program Offset Program

- Consistent with California's program
- 8% offset usage limit for compliance
- Three draft compliance offset protocols
 - Livestock Digesters
 - Small Landfills
 - Destruction of Ozone Depleting Substances from Foam
- No opportunity for offset program or protocol shopping
 - ARB would issue for projects in the United States
 - Quebec would issue for projects in Quebec or Canada

Environmental Analysis of Proposed Amendments

- Non-linkage amendments
 - Mostly administrative changes
 - No impacts beyond those already identified in Cap-and-Trade FED
- Linkage amendments
 - Potential for California entities to seek Quebec issued offsets
 - Similar potential impacts as those identified by ARB for the Landfill Measure and ARB's Livestock Digester and Ozone Depleting Substances Protocol

Staff Recommendation

- Approve Resolution 12-27
- Approve Resolution 12-28