

# Cap-and-Trade Regulation Program Update

September 20, 2012

# Outline

- Background
- Program progress
- Implementation activities

# Background

- Cap-and-Trade Regulation originally adopted by Board in October 2011
  - Board directed staff to address issues with potential for regulatory improvements
- Clean-up regulation considered by Board in June 2012
  - Regulatory changes became effective September 1, 2012
- Compliance obligation begins January 1, 2013

# Program Progress

# Cap & Trade Program Design

- Flexibility to achieve cost-effective GHG emissions reductions
- Mix of free allocation and auction for lower cost emission reductions
- Most allowances allocated freely at outset of program
  - Provide transition assistance
  - Prevent leakage
  - Less than 10 percent auctioned at outset of program
- Most effective way to provide transparent price signal
  - Key indicator of actual abatement cost
  - Minimizes windfall profits

# Maintaining Industry Competitiveness

- Allocation to industrial entities is designed to reward efficiency and maintain competitiveness
- Several factors determine industrial allocation, including assistance factors and efficiency benchmarks
- Work is on-going to:
  - Continue evaluation of leakage risk
  - Develop new and refine existing product benchmarks
- Analysis may result in new and/or revised benchmarks and changes in leakage risk/assistance factors
- All assistance factors are at 100% through 2014

# Clarifying Resource Shuffling

- Provisions to address electricity sector leakage must not negatively impact energy market supply and reliability
- ARB will suspend enforcement of the resource shuffling attestation during the first 18 months of the program
- Emissions Market Assessment Committee to discuss potential options at September 24, 2012 public meeting
- Staff proposes to return to Board with recommendation at October Board meeting

# Allocation to Universities

- California's universities have taken early actions to reduce GHG emissions
- Staff proposes allocating allowances to public and private campuses that are covered entities
- Would require regulatory amendment in mid-2013

# Legacy Contracts

- Some entities cannot pass through Cap-and-Trade Program costs due to lack of cost-recovery mechanisms in pre-AB 32 contracts
- Staff proposes allocating allowances to these entities based on benchmarks
- Would require regulatory amendment in mid-2013
- Work with CPUC to ensure consistency for addressing legacy contracts under CPUC jurisdiction

# “But For” Combined Heat and Power (CHP)

- Ensure proper incentives for CHP
- Limited number of facilities would not be subject to the Cap-and-Trade Regulation “but for” their investment in CHP
- Staff proposes to exempt “but for” CHP facilities during the first compliance period
- Would require regulatory amendment in mid-2013

# Waste-To-Energy Facilities

- Board direction to evaluate emissions reductions opportunities for waste sector and to ensure equitable treatment
- Evaluation ongoing with CalRecycle to determine the most appropriate treatment of municipal solid waste under AB 32
- Until evaluation is complete, staff proposes exempting covered emissions of waste-to-energy facilities
- Would require regulatory amendment in mid-2013

# Linkage

- ARB released staff proposal in May 2012
- Board did not act on proposed regulation because of trailer bill language requiring Governor to make findings before linkage
- Quebec's linkage regulation to be finalized fall 2012
- ARB staff is preparing a request for findings
- Staff plans to report to the Board after receiving findings from the Governor

# Implementation Activities

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- Tracking System (CITSS)
- Auction
- Compliance Offsets
- Market Monitoring
- Other Implementation Activities

# Tracking System

- CITSS tracks allowances and all transactions for Cap-and-Trade program participants
- All auction buyers must be registered in CITSS
- Secondary market buyers and sellers must be registered in CITSS before transactions
- Account holders must complete Know Your Customer check

# Tracking System (cont.)

- Registration module released July 2012
  - Allows users and entities to register
- Trading module to be released early October 2012
  - Will allow ARB to create and distribute allowances and offsets
  - Will allow participants to transfer allowances
  - Security testing currently underway
- Help Desk and stakeholder training for both modules

# Auction Platform Overview

- Centralized, secure platform for auction and reserve sales
- Paperless system for application, bidding, and results
- Stakeholder access to information and educational materials
- Help desk support from Auction Administrator
- Market monitoring page for flagging bids in real time

# Practice Auction

- Held August 30, 2012 to allow stakeholders to access the Auction Platform and allow ARB to test systems in preparation for the November auction
- Over 100 participants submitted almost 2,000 bids
- ARB and Contractors tested systems and procedures
- Lessons learned:
  - Minor bug fixes
  - Identified areas for additional outreach

# November Auction Preparation

- Auction public notice released on September 14
  - At least 21.80 million vintage 2013 allowances to be auctioned
  - Approximately 39.45 million vintage 2015 allowances to be auctioned
- Participants must apply for the auction no later than October 15
- Bidders' conference: October 4
- Participant training webinars: September 25 and October 10
- Auction to be conducted on November 14, 2012
- Results posted once auction is certified by ARB – anticipated November 19

# Compliance Offsets

- Compliance offset program requires ARB accredited third-party verification
- Completed four training sessions to accredit verifiers
  - Anticipate issuing Executive Orders in the Fall
- Leverage administrative capabilities of Offset Project Registries to implement the program
  - Three companies have applied
  - Anticipate accreditation in the Fall
- Program guidance is to be released this Fall

# Market Monitoring Activities

- Market monitor will work with ARB staff to evaluate auctions and market activities
- Emissions Market Assessment Committee
  - Contract to provide independent analysis and advice to ARB
  - Will discuss linkage, resource shuffling at September 24 meeting
- Federal monitoring and enforcement of carbon and energy markets and derivatives
- Market Simulation Group
  - Contract to conduct simulations to stress test program design (e.g. purchase and holding limits)

# Other Implementation Activities

- Allocation
  - Electricity distribution utility (EDU) allocation of vintage 2013 allowances occurred on September 14
  - Allocation of vintage 2013 allowances to industrial covered entities will occur by November 1
    - Industrial allocations calculated based on reported/verified product data and formulas listed in the regulation
- Auction Proceeds
  - ARB to work with Governor's Office, Administration, and the Legislature to develop strategic investment plan

# Conclusion

- ARB is on track for the Cap-and-Trade Regulation launch in Fall 2012
  - Tracking System
  - Auction Platform
  - Allocation
  - Market Monitoring