

Cap-and-Trade Regulation Program Update

October 18, 2012

Outline

- Resource Shuffling
- Price Containment
- Program Developments
 - Allowance allocation
 - Second release of CITSS

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

Resource Shuffling

- Emissions Market Assessment Committee discussed resource shuffling at September 24, 2012 public meeting
- Based on work with electricity importers, staff propose that ARB issue guidance to clarify *what is* and *what is not* resource shuffling
- Most significant potential for resource shuffling involves electricity from resources subject to the SB 1368 – the Emissions Performance Standard
 - Divestment of these resources is not resource shuffling
 - Selling off the electricity to avoid a compliance obligation is resource shuffling

Resource Shuffling - Safe Harbors

- Changes in imports needed to meet RPS goals
- Compliance with state or federal laws and regulations (including SB 1368)
- Retirement or divestiture of resources, or contract expiration
- Transmission constraints, or emergencies
- Short-term trading activity
- Termination of a contract for reasons other than reducing GHG compliance obligation

Resource Shuffling – Moving Forward

- Enforcement options include:
 - Monetary penalties pursuant to health and safety code
 - Environmental remediation to maintain integrity of the cap
- Next steps
 - Provide guidance on safe harbors *and* what is prohibited
 - Consideration of regulatory amendments in 2013

Price Containment

- Price containment has been a key design feature of program
 - Allowance price containment reserve
 - Multi-year compliance period
 - Unlimited banking
 - Offsets
- Direct staff to develop a proposal to maintain the emission reduction goals of the program while ensuring that allowance prices do not exceed the highest price tier of the Allowance Price Containment Reserve

Implementation Activities

Tracking System Update

- Trading module released on October 8, 2012
 - ARB can create and distribute allowances and offsets
 - Participants can hold and transfer allowances
 - Participants can designate additional account representatives
 - Participants can designate account viewing agents

Allowance Allocation

- Utilities allowances allocated September 14, 2012
- Utilities allowances placed in accounts on October 8, 2012
- Industry allowances to be allocated November 1, 2012

November Auction Preparation

- Participants must have applied for auction by October 15
- Bidders' conference and participant auction training webinars held: September 25th, October 4th and 10th
- Auction to be conducted on November 14, 2012
 - At least 21.80 million vintage 2013 allowances to be auctioned
 - Approximately 39.45 million vintage 2015 allowances to be auctioned
- Results posted once auction is certified by ARB – anticipated November 19

Market Monitoring and Security

- Extensive security testing of systems
- Ongoing monitoring of auctions
- Established team focused on program monitoring
- Periodic program audits and reporting
- Ongoing analysis/modeling
- Collaboration with several organizations to anticipate, detect, and respond to market manipulation

Conclusion

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