



Cap-and-Trade Regulation 2016 Amendments

July 27, 2017

Introduction

- ▣ Second of two Board hearings on proposed Cap-and-Trade Regulation 2016 Amendments
 - ▣ First Board Hearing with no Board action in September 2016
 - ▣ Second Board Hearing today to consider adoption
- ▣ Final Statement of Reasons completed by August 4, 2017

Program Background

- AB 32 requires California to reduce GHG emissions to 1990 levels by 2020, and to maintain and continue GHG emissions reductions beyond 2020
- Cap-and-Trade Regulation adopted in 2011
 - One of a suite of measures to achieve AB 32 goals
- State is on course to meet the 2020 target
- SB 32 requires a reductions of GHG emissions to 40% below 1990 levels by 2030
- AB 398 authorizes ARB to use the Cap-and-Trade Program to help achieve the 2030 target

Program Features

- ▣ Limits total GHG emissions from all regulated sources
- ▣ Declining annual caps
- ▣ Allows compliance flexibility to minimize costs
- ▣ Complements command-and-control measures
- ▣ The price on emissions incentivizes change and spurs innovation in cleaner and efficient technologies
- ▣ GHG and market data published to ensure transparency

Industrial Allocation (CP3)

- Eliminate and update some product-based benchmarks
- Update some product definitions
- Include leakage risk assessments and assistance factors for newly covered sectors

EDU and Natural Gas Supplier Use of Allocated Allowance Value (CP3)

- Align electrical distribution utility (EDU) and natural gas supplier requirements on returning proceeds to ratepayers in a non-volumetric manner
- Establish 10-year deadline for spending auction proceeds from allocated allowances to ensure timely expenditures
- Modify annual reporting on the use of allocated allowance value to eliminate potential reporting gaps

Electricity Sector (CP3)

- Ensure full accounting of imported electricity emissions from transfers within CAISO's Energy Imbalance Market (EIM)
 - Temporary "bridge" solution to retire unsold allowances in the amount of underreported EIM emissions
- Modify requirements for the Voluntary Renewable Electricity Program to expand eligibility
- Remove the qualified export adjustment for electricity imports

Points of Compliance and Limited Exemptions (CP3)

- Ensure equity for in-state versus out-of-state liquefied petroleum gas providers
- Add a limited exemption for liquefied natural gas suppliers for the second compliance period
- Extend the limited exemption for existing waste-to-energy facilities through the second compliance period
- Update the list of emissions without a compliance obligation

Offset Credit Program (CP3)

- Incorporate staff experience and stakeholder suggestions to simplify and clarify implementation
- Clarify regulatory compliance and invalidation
- Streamline and clarify requirements for offset project listing, reporting and verification, and issuance

Registration and Auction/Reserve Sale Administration (CP3)

- Clarify and consolidate registration requirements
- Streamline provisions on designating and changing account representatives
- Modify the administration and format of auctions and Reserve sales to improve clarity, internal consistency, and implementation efficiency
- Streamline corporate association disclosure requirements

Linkage (CP3)

- ▣ Proposed amendments would link the California program with the new Ontario program beginning in 2018
- ▣ Ontario is also working through its own process and requirements towards linking its program to Québec and California including public consultations and regulatory approvals
- ▣ Linking would be final once all three jurisdictions have signed a linking agreement and made the necessary regulatory amendments
- ▣ Ontario is a member of the Western Climate Initiative (WCI) and collaborated on the development of the WCI cap-and-trade program design recommendations
- ▣ Governor made SB 1018 linkage findings for Ontario in March 2017
- ▣ International sector-based tropical forestry offset program linkage is not part of the proposed amendments

Other Linkages (CP3)

- ▣ Two new forms of linkage are described:
 - ▣ **Retirement-Only Limited Linkage:** Entities in California would be able to retire compliance instruments issued by another GHG program for compliance in California
 - ▣ **Retirement-Only Agreement:** Entities registered in a non-California GHG program would be able to retire California compliance instruments
- ▣ No such engagements are proposed, but amendments clarify how these could be implemented to ensure a public process and Board approval

AB 398 and AB 617

- ▣ July 17, 2017 legislature passed AB 398 and AB 617
 - ▣ AB 398 provides authority and direction on a post-2020 Cap-and-Trade Program
 - ▣ AB 617 focuses on reducing exposure to criteria and toxic pollutants in California's most burdened communities
- ▣ The post-2020 amendments in this rulemaking establish a framework for a post-2020 program, but not all elements
- ▣ Staff will initiate a new rulemaking later this year to design a program that conforms to the requirements in AB 398

Proposed Amendments for the Post-2020 Program

- Extend some provisions of the Program beyond 2020
 - Establish framework for emissions caps beyond 2020
 - Continue linkage with Québec and Ontario
 - Enable the future auction and allocation of allowances
 - Streamline the Allowance Price Containment Reserve by collapsing current price tier structure
- Enable California compliance with the federal Clean Power Plan

Allowance Allocation (Post-2020)

- General approaches to allowance allocation are retained post-2020
 - Electrical distribution utilities
 - Natural gas suppliers
 - Public wholesale water agencies
 - Universities and public service facilities
- Post-2020 allowance allocation to industrial covered entities is not included in this proposal
 - Allocation is important for leakage protection

Allocation to Electric Utilities (Post-2020)

- Post-2020 allocations to utilities are based on projected Cap-and-Trade Program cost burden
 - Relies on the RPS factor instead of the cap adjustment factor
 - Acknowledges that some deliveries of RPS-eligible electricity incur a compliance obligation
 - Excludes allowances allocated directly to industrial covered entities served by that utility
- Staff intends to evaluate requiring full consignment for all electrical distribution utilities

Allocation to Natural Gas Suppliers (Post-2020)

- Continue to increase the minimum consignment percentage by five percent per year post-2020
 - 100% consignment would be achieved in 2030
 - Increasing consignment incentivizes conservation
 - Increasing consignment more closely aligns natural gas supplier and electric utility allocation requirements
- Exemption for cogeneration facilities that would not be included in the Program “but for” their cogeneration of electricity and thermal output is extended through 2029

Alternatives Evaluated

- **Facility Specific Requirements** – require each facility/entity to reduce emissions annually with no trading
 - Higher estimated cost
 - Harder to address leakage concerns
 - Some facilities may need to cut output to meet targets; jobs/economic impacts
 - Difficult to link with other jurisdictions
 - Increased air quality benefits as production is reduced instate

- **Carbon Tax** – replace Cap-and-Trade with a carbon tax
 - Less certain to meet 2030 target because hard to set correct tax rate
 - Harder to address leakage concerns
 - Difficult to link with other jurisdictions
 - Requires additional statutory authority

Environmental Analysis (EA)

- Draft Environmental Analysis (EA) completed
 - Covers both the proposed Cap-and-Trade Regulation 2016 Amendments and the proposed Clean Power Plan Compliance Plan
 - Environmental impacts were determined to be consistent with prior analyses conducted for the Program
- Released for public comment August 5, 2016 through September 19, 2016
- ARB prepared the Final EA and written responses to comments received on the Draft EA
 - Publicly released July 17, 2017

Next Steps

- ▣ Report to Board this year on plans to implement AB 617
- ▣ Initiate a new rulemaking this year to develop amendments to conform to AB 398
 - ▣ Public workshops
 - ▣ AB 398 requirements in effect for January 2021
- ▣ AB 398 requires updated Scoping Plan by January 1, 2018
 - ▣ Proposed Scoping Plan posted January 2017
 - ▣ Summer/Fall 2017 – update to reflect AB 398
 - ▣ Fall 2017 – post updated draft plan and public workshop
 - ▣ December 2017 – Final Board consideration

Staff Recommendation

- Approve the proposed Resolution which includes:
 - Approval of written responses to environmental comments, certification of the Final EA, and making the required CEQA findings
 - Adoption of Final Regulation Order
- Proposed Resolution also directs the Executive Officer to:
 - Finalize the Final Statement of Reasons and submit the completed regulatory package to the Office of Administrative Law
- Direct staff to initiate rulemaking to design post-2020 program to reflect AB 398