

Cap-and-Trade Workshop: Draft Amendments for Linking California's and Quebec's Cap-and-Trade Programs

California Air Resources Board
Byron Sher Auditorium
10 a.m. to 1 p.m.
April 9, 2012

Workshop Materials and Emailed Questions

The slides are posted at:

<http://www.arb.ca.gov/cc/capandtrade/meetings/meetings.htm>

Questions during the workshop can be sent to:
auditorium@calepa.ca.gov

Today's Agenda

- Upcoming implementation activities
- Identify substantive rule changes
- Solicit stakeholder input
- Environmental Analysis
- Review rulemaking schedule

Cap-and-Trade Implementation Update

Tracking System Testing and Training

- April: stakeholder testing of registration module
- Late Spring: stakeholder testing of basic market functions (e.g., transfer requests)
- Stakeholder training prior to system “going live”

Auction Operations

- Practice auction in August to test systems
- Allocated allowances distributed to covered entities in September
- First auction in November
- Auction being designed to accommodate potential linkage with cap-and-trade programs in WCI jurisdictions

DRAFT Rule Changes

Account Representatives (95832)

- Existing text allows only one Authorized Account Representative and one Alternate Authorized Account Representative per registered entity
- Tracking system development discussions led California and Quebec to support
 - Increasing the number of account representatives who could take actions on the system
 - Adding a new type of agent that could only access the tracking system to monitor accounts

Draft Changes to Account Representatives (95832)

- Allow up to 4 alternate authorized account representatives (AAAR) with same functions as authorized account representatives (AAR)
- Allow up to 5 account viewing agents (AVA)
 - Can access entity's accounts and information stored on tracking system
 - Cannot enter or alter information, or submit transfer requests
- Require an officer of entity to sign appointments of AAR, AAAR, AVA
- AAR notified of any communication involving AAAR

Corporate Association Criteria (95833)

Linkage discussions raised several issues:

- California list of measures of control lacked language addressing partnerships
- Need to harmonize with existing Quebec regulations establishing a corporate association at a 20% level of control
- Clarification needed between direct and indirect corporate associations tests

Draft Changes to Corporate Association Criteria (95833)

- Partnerships added to list of measures of control
- Corporate association now disclosed when measures exceed 20%, down from current 25%
- Direct association when measures exceed 50%

Draft Changes to Corporate Association Criteria (95833)

- Clarification: Indirect association exists
 - If measures exceed 20% across chain of linked entities, and
 - If it is NOT a Direct association
- Joint holding and purchase limits will apply to Direct associations only

Account Structure Developments

- Existing account structure is built around facility-level compliance so each entity has its own accounts
- Many stakeholders proposed the consolidation of accounts for facilities they operate into a single set of accounts to reduce complexity and improve compliance
- This approach would be simpler
- ARB will retain transparency through continued facility-level reporting

Draft Changes to Direct Corporate Associations: Consolidated Accounts (95833)

- Accounts held by entities part of a Direct corporate association will be consolidated by January 1, 2013.
- Consolidated accounts will include compliance and limited use holding accounts only if a member entity already has one.
- Entities may opt out of consolidation
 - Apply by October 1, 2012 to avoid consolidation in 2013
 - Distribute holding and purchase limits among members
 - Abide by existing rules for corporate associations

Beneficial Holdings Provisions Removed (95834)

- Provisions didn't solve electricity contracting issues
- Market monitor identified oversight concerns associated with the provisions
- Provisions added complexity to the design and development of CITSS

Draft Know-Your-Customer Requirements for Registration (95834)

- A response to problems occurring in the EU-ETS
- Apply to persons representing registered entities or registering as individuals
- Open Issues:
 - List of documentation requirements evolving as we weigh KYC effectiveness versus collection of personal information
 - Considering requirement for a service agent for entities not located in a linked jurisdiction
 - Should individuals with criminal backgrounds be excluded from registering onto the tracking system?

Draft Change to Auction Schedule in 2012

- No August auction
- First auction is on November 14, 2012
- All 2015 allowances allocated for 2012 Advance auction will be sold at the November Advance Auction
- Utilities must consign one-third of the allocation of 2013 allowances placed in their Limited Use Holding Accounts to the November Current Auction

Draft Changes to Auction Process (95911)

- Regulation sets annual adjusted Auction Reserve Price (ARP).
- Auction Reserve Price is reset on day of auction as the higher of the California and Quebec ARP when converted to a single currency.
- Auction window open 3 hours on day of auction (10 a.m. to 1 p.m. PST).
- Tied bid procedure changed to tied bidders receiving a proportion of remaining allowances.

Draft Changes to Auction Timeline (95912)

- Bid guarantee due 12 days before auction
- Bid guarantee payable to the financial services administrator (Deutsche Bank)
- Submit separate guarantees to Current and Advance auctions, or will apply to Current auction before the Advance auction
- If submit more than one form of bid guarantee, must specify the access order (ARB is still considering specifying an order)

Draft Changes to Purchase Limits (95914)

- Replace Utility exemption with 40% purchase limit to harmonize with Quebec, which has no exemptions
- Retain 15% for other covered entities and 4% for voluntarily associated entities.
- Process for allocating purchase limit when a direct corporate association contains covered and voluntarily associated entities
- Consolidated account proposal should limit need for allocating purchase limits

Draft Changes to Holding Limits (95920)

- WCI discussions identified concerns about size of holdings, especially future vintages
- Limits will be harmonized to account for linkage of allowance budgets
- Holding limit for each future vintage instead of entire three year future vintage pool
- If holding limit violations not detected at time of transfer allow 5 day cure before forced consignment

Draft Changes to Limited Exemption (95920)

- Adjustment to the Limited Exemption from the Holding Limit available if emissions increase is due to:
 - New entry
 - Additional facility or facility expansion
 - Increased production
- If petition accepted, Limited Exemption increases until verified emissions report received

Draft Changes to Transfer Process (95921)

- Current “Two key” process replaced by “Push-Push-Pull”
 - Two authorized or alternate authorized account representatives for the source account file transfer request
 - One authorized or alternate authorized account representative for destination account confirms transfer
 - 48 hours for the filing of the request, 24 hours to confirm
- System designed to prevent theft or other unauthorized transfer Clarification of deficiencies and information requirements for transfers

Draft Changes for Other Linkage Requirements

- Section 95830
 - Draft text allows California to recognize entities registered into linked cap-and-trade systems as able to participate in California's system.
 - Draft text also requires entities to register into a linked jurisdiction based on where they are located.
- Section 95942
 - Draft text allows use of California compliance instruments for compliance in linked cap-and-trade systems.
 - Existing text in section 95942 allows California entities to use instruments from linked cap-and-trade systems.

Environmental Analysis

California Environmental Quality Act

Overview of Requirements

- Framework for Environmental Analysis
- Scope of Environmental Impact
- Planned analyses

California Environmental Quality Act

Framework for Environmental Analysis

- Based on Project Description (proposed amendments)
- Utilize the 2010 CEQA Environmental Checklist
- Environmental Analysis to Include
 - Direct and Indirect Impacts
 - Alternatives

California Environmental Quality Act

Environmental Impact Analysis

- Will focus on compliance responses
- Existing conditions used as baseline
- Comparison of existing conditions with modeled projections of emissions and other resources with project and without project

Next Steps

- Request comments by April 13
- Notice of proposed linkage regulation and Initial Statement of Reasons – mid May
- Board consideration – June 28th

Written Comments

- Submit online by April 13, 2012
- <http://www.arb.ca.gov/cc/capandtrade/comments.htm>

Additional Information

- 2012 timeline:

<http://www.arb.ca.gov/cc/capandtrade/2012activities.pdf>

- General cap-and-trade program page:

<http://www.arb.ca.gov/cc/capandtrade/capandtrade.htm>

- Join the cap-and-trade listserve at:

[http://www.arb.ca.gov/listserv/listserv_ind.php?listname=c
apandtrade](http://www.arb.ca.gov/listserv/listserv_ind.php?listname=c
apandtrade)

Contacts

- Steven Cliff, Chief
Climate Change Markets Branch
scliff@arb.ca.gov
- Rajinder Sahota, Manager
Climate Change Market Monitoring
rsahota@arb.ca.gov
- Ray Olsson, Lead Staff
rolsson@arb.ca.gov