

INTRODUCTION

The California Air Resources Board (ARB or Board) approved the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation (Regulation) in October 2011. The Regulation provides for the establishment, administration, and enforcement of the California Greenhouse Gas Cap-and-Trade Program by applying a statewide greenhouse gas (GHG) emissions cap on covered entities and providing a mechanism for trading instruments used to comply with the cap. The Cap-and-Trade Program provides flexibility about how sources may comply with the overall cap.¹ This document provides instructional guidance to covered sources and to other entities which may voluntarily participate in the program.

Purpose of Instructional Guidance

The Regulation, which appears at sections 95800 to 96023 of Title 17, California Code of Regulations, is a set of rules that establish a limit on statewide GHG emissions from large emission sources and suppliers of transportation fuels and natural gas. ARB staff has prepared this document to describe the regulatory requirements in a user-friendly format. **Unlike the Regulation itself, this guidance does not have the force of law.** It is not intended to and cannot establish new mandatory requirements beyond those that are already in the Regulation, and it does not supplant, replace, or amend any of the legal requirements of the Regulation. Conversely, this guidance's omission or truncation of regulatory requirements does not relieve operators of their legal obligation to fully comply with all requirements of the Regulation.

This guidance includes clarifying detail and examples where staff believes additional information would help covered entities successfully achieve the GHG emission reductions required by the Regulation. Steps to successful compliance with the Regulation are explained below and in following chapters. To further assist covered entities, ARB will sponsor technical discussions and training workshops for its Cap-and-Trade Program, including use of the Compliance Instrument Tracking System Services (CITSS) tool. More information is posted at the Cap-and-Trade Program webpage, <http://www.arb.ca.gov/cc/capandtrade/capandtrade.htm>.

¹ The regulation was developed under the California Global Warming Solutions Act of 2006 (Statutes of 2006; Chapter 488; Health and Safety Code sections 38500 et seq.).

Steps to Successful Cap-and-Trade Program Compliance

The table below outlines seven steps to successful cap-and-trade compliance and references the relevant chapters in this guidance.

<i>Steps</i>		<i>Chapters</i>
Step 1:	Determine whether your company is covered by Cap-and-Trade Program. If not covered, determine whether to be a voluntary or opt-in participant.	Chapter 2
Step 2:	Continue (or begin) complying with Mandatory Reporting Regulation (MRR).	Chapter 3
Step 3:	Register with the Compliance Instrument Tracking System Service (CITSS) and the Market Auction Platform (MAP).	Chapter 3
Step 4:	Determine deadlines for surrendering compliance instruments.	Chapter 3
Step 5:	Acquire compliance instruments.	Chapters 5 & 6
Step 6:	Surrender compliance instruments for covered emissions by deadline.	Chapter 3
Step 7:	Retain Records	Chapters 3,5, & 6

The table above does not include the steps in the issuance of offset credits. Offset project developers, offset verifiers, and offset registries will find guidance information for the issuance of offset credits in Chapter 6. For covered entities and voluntary or opt-in participants wishing to purchase offset credits, guidance about purchasing offset credits is included in Chapters 5 and 6.

Summary of the Regulation

California's Cap-and-Trade Regulation is authorized by the Global Warming Solutions Act of 2006 (the Act), passed by the Legislature as Assembly Bill 32 (AB 32, Núñez, Chapter 488, Statutes of 2006) and signed by Governor Arnold Schwarzenegger in September 2006. The full scope of the Act creates a comprehensive, multi-year program to reduce GHG emissions in California, with the overall goal of restoring GHG emissions to 1990 levels by the year 2020. Section 38570 of the Act permitted the Board to adopt a market-based compliance mechanism to help meet the GHG emissions goal.

While the Board adopted many other complementary measures, the Cap-and-Trade Regulation sets an aggregate limit on the GHG emissions of covered sources. This limit reinforces the other measures and helps ensure that California will achieve its GHG emissions goal for 2020.

Chapter 1 summarizes the Cap-and-Trade Program, including its interaction with the Mandatory Reporting Regulation. Please see the first section of that chapter for a high-level summary. Additional information is also available at ARB's Cap-and-Trade Program website: <http://www.arb.ca.gov/cc/capandtrade/capandtrade.htm>.

Crosswalk between Sections of the Cap-and-Trade Regulation and the Guidance Document

This Instructional Guidance only roughly follows the organization of the Cap-and-Trade Regulation, which is codified in subchapter 10, article 2, sections 95800 to 96023, Title 17, California Code of Regulations.² Sections in article 2 are organized into 15 subarticles:

1. Subarticle 2 provides the Regulation's **purpose and definition** of nearly 300 terms.
2. Subarticle 3 details the Regulation's **applicability**—specifically which emissions are covered by the Regulation.
3. Subarticle 4 describes the **compliance instruments** included in the Cap-and-Trade Program (i.e., allowances and ARB offset credits).
4. Subarticle 5 describes the **registration and accounts** for program participants, which are part of the tracking system.
5. Subarticle 6 provides the annual **allowance budgets**, i.e., the “cap.”
6. Subarticle 7 details the **compliance requirements for covered entities**, including deadlines for surrendering compliance instruments.
7. Subarticle 8 details the **disposition of allowances**, i.e., how many allowances will be directed for industry assistance, to auctions, and for any other reserved uses.
8. Subarticle 9 details the **direct allocations of allowances**, i.e., provides the methodology determining how many allowances each entity will receive.
9. Subarticle 10 describes the **auction and sale of allowances**.
10. Subarticle 11 provides the rules for **trading and banking** of California GHG allowances.
11. Subarticle 12 establishes the provisions for **linking to external GHG emissions trading programs**.
12. Subarticle 13, the longest subarticle, details **ARB offset credits**.
13. Subarticle 14 establishes provisions for the **recognition of compliance instruments from other programs**.
14. Subarticle 15 describes **enforcement and penalties** for the Cap-and-Trade Regulation.
15. Subarticle 16 provides a few **other provisions** relating to the Regulation.

² Regulations to implement the California Global Warming Solutions Act of 2006 (Stats. 2006; Chapter 488; Health and Safety Code sections 38500 et seq.) are contained in Subchapter 10: Climate Change.

Compliance Instrument Tracking System Service (CITSS)

To facilitate compliance in the Cap-and-Trade Program, ARB has developed a comprehensive web-based tool to provide services tracking ownership of compliance instruments, from when they are first issued to when they are surrendered to meet a compliance obligation. The Compliance Instrument Tracking System Service (CITSS) is further discussed in Chapter 3.

To assist facility operators with mandatory reporting, ARB developed a comprehensive web-based reporting tool to simplify and guide the reporting process. That tool provided facility operators the opportunity to create accounts in the system in which they can assign staff, consultants, and verifiers who will have varying levels of access to enter, modify, or view the facility data. That system will continue to provide the basis for determining the GHG emissions for which entities will have a cap-and-trade compliance obligation. For additional information about mandatory GHG emissions reporting, please visit the GHG reporting webpage at: <http://www.arb.ca.gov/cc/reporting/ghg-rep/ghg-rep.htm>

Verification

The mandatory GHG reporting and Cap-and-Trade Regulations require independent third-party verification of GHG data. Submitted GHG emissions reports and underlying data must be verified by independent third parties trained and accredited by ARB and hired by the operator. Verification helps to ensure (1) completeness, accuracy, and consistency in the reported GHG data, and (2) that the methods specified in the Regulation have been correctly applied. Verification requirements in the Regulation ensure that only real GHG reductions are issued ARB offset credit. A separate guidance document further discusses the offset verification requirements.