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## **California Cap-and-Trade Program** **Guidance on Limited Exemption from the Holding Limit**

The California Cap-and-Trade Program establishes a Holding Limit, which sets a restriction on the number of allowances that an entity or a group of entities with a direct corporate association may hold in their General Holding Account(s) at one time. The Program also includes a Limited Exemption to this Holding Limit that ensures covered and opt-in covered entities have the ability to plan ahead for compliance and are able to accumulate sufficient allowances to comply with their compliance obligations. This fact sheet describes how the California Air Resources Board (CARB) calculates and applies the Limited Exemption to covered entity allowance holdings.

This document does not have the force of law, does not establish new requirements, and in no way supplants, replaces, or amends any of the legal requirements of the Cap-and-Trade Regulation. Any omission or truncation of regulatory requirements in this fact sheet does not relieve entities of their legal obligation to comply fully with all requirements of the Regulation.

### **What is the Limited Exemption from the Holding Limit? (Section 95920(d)(2)(A))**

Every entity registered in the California Cap-and-Trade Program has the same Holding Limit that restricts the number of current vintage allowances the entity may hold in its General Holding Account. For the purpose of the Holding Limit and Limited Exemption, the term “current vintage” includes any allowances with a vintage equal to or prior to the current calendar year. There is a separate Holding Limit for each of the three future vintages that are in circulation at any time. Since covered entities may only use future vintages to meet compliance obligations if they receive an allocation “true-up,” the limited exemption does not apply to future vintages.

The purpose of the Limited Exemption is to allow a covered entity to accumulate current vintage allowances needed for compliance that would otherwise exceed the Holding Limit. CARB uses a formula based on an entity’s annual reported and verified emissions data reports, submitted pursuant to the Regulation for the Mandatory Reporting of Greenhouse Gas Emissions (MRR), to estimate how many allowances to exempt from the Holding Limit calculation. The Limited Exemption is not applicable to voluntarily associated entities (VAEs) as they do not have any emissions compliance obligation.

### **How does the Limited Exemption work, and where do I find this in CITSS?**

Only allowances in an entity’s Compliance Account in the Compliance Instrument Tracking System Service (CITSS) qualify for the Limited Exemption. When an entity approaches its Holding Limit, the entity can use its Limited Exemption to exclude some allowances from the Holding Limit calculation by transferring those allowances to its Compliance Account.

The “Holding Limits” tab in CITSS displays the number of allowances the entity may add to its General Holding Account without exceeding the Holding Limit. CITSS also shows the unused amount of the Limited Exemption, if applicable.

**What data does CARB use to calculate the Limited Exemption?**

CARB uses a running sum of past reported emissions to estimate the number of allowances an entity will need for the current compliance period. The Limited Exemption is calculated each year and updated in CITSS following the November 1 compliance deadline. For example, the 2020 Limited Exemption that applies to vintage 2020 allowances will be updated in CITSS, following the November 1, 2020 annual compliance deadline.

If CARB has not assigned emissions to an entity, and the emission reports are not available or verified at the time the Limited Exemption is calculated, then CARB will increase the Limited Exemption by the amount of the most recently received emissions report submitted with a verification statement to calculate the Limited Exemption. If this procedure is used, CARB will not update the Limited Exemption using data in that year’s scheduled data reports until the next scheduled change of the Limited Exemption.

**Does the Limited Exemption apply to future vintage allowances?**

No, the Limited Exemption only applies to current vintage allowances, because the objective is to allow an entity to accumulate allowances eligible to use towards remaining emissions obligations for a full compliance period compliance obligation. Except for an entity receiving an allocation “true-up,” an entity can only use allowances for compliance when the allowances have a vintage that matches the year for which an entity has a compliance obligation or an earlier vintage year. For example, an entity can only use vintage 2019 and earlier vintage allowances to cover its 2019 and earlier emissions obligations.

**When do allocated allowances count towards the Limited Exemption?**

Allowances allocated to an entity do not count against the entity’s Holding Limit or Limited Exemption as long as the allowances remain in the entity’s Annual Allocation Holding Account. The allowances are included in the Holding Limit or Limited Exemption calculations on January 1 when they move to an entity’s Holding or Compliance Account. An entity may only transfer allowances in its Annual Allocation Holding Account before January 1 to its Compliance Account if the entity is eligible for a true-up quantity that it intends to use for compliance surrender.

**Does the Limited Exemption change after an annual or full compliance period surrender event?**

Following an annual compliance event, CARB adjusts the Limited Exemption to reflect the most recent years’ emissions reports.

At the start of a new compliance period, the Limited Exemption is a smaller value, representing the two most recent emissions years’ reports, and increases over time as

additional emissions obligations are due for surrender. The Limited Exemption is updated each year to reflect additional verified covered emissions that result in an obligation due.

### **Can an entity obtain an increase in its Limited Exemption if its emissions increase during a compliance period?**

If an entity experiences an increase in emissions, the Limited Exemption may not be large enough to allow the entity to accumulate sufficient allowances to meet its obligation. An entity may request a temporary increase in the Limited Exemption if the entity is able to demonstrate an increase in emissions relative to the previous year. The entity must submit a petition to the Executive Officer before October 1 of the year the emissions increased pursuant to section 95920(d)(3).

The amount of the increase must be at least 250,000 metric tons CO<sub>2</sub>e on an annualized basis. If the Executive Officer grants the petition, the adjusted Limited Exemption for that entity will be in effect until CARB receives verified emissions data and can recalculate the Limited Exemption using the normal updating process.

### **How does CARB calculate the Limited Exemption?**

The Limited Exemption is a running sum of an entity's past reported covered emissions that result in a full compliance period compliance obligation due pursuant to section 95853. The number of years' worth of reported emissions that are included in the Limited Exemption calculation depends on when the entity registered as a covered or opt-in covered entity. The Limited Exemption calculation is described in complete detail in section 95920 of the Cap-and-Trade Regulation.

Section 1 below provides an explanation of the Limited Exemption calculation methodology for those entities already registered in CITSS *before* January 1, 2018. Section 2 describes the Limited Exemption calculation methodology for newer entities that register *after* January 1, 2018, with an emissions obligation due for the first year of a new compliance period. Finally, Section 3 describes the Limited Exemption calculation for late entrants registering during a compliance period.

Summary tables and calculations are provided as Table 1 and Table 2. Table 1 identifies the generic Limited Exemption calculations that apply to entities registered *before* January 1, 2018, and Table 2 identifies the Limited Exemption calculation methodology for newer entities that register *after* January 1, 2018. If you are unsure of how to apply a calculation method to your entity, please contact CARB staff for any questions.

### **Section 1: Entities registered in CITSS *before* January 1, 2018**

Following the second full compliance period surrender event, all entities registered as of January 1, 2018, had a 2018 Limited Exemption (LE) that applies to current vintage allowances (2018 and prior year vintages) based on their 2016 and 2017 verified

emissions data reports. The calculation was:

$$2018 \text{ LE} = 2016 + 2017 \text{ emissions}$$

Then, the Limited Exemption would be increased each year and would reflect the surrender of 30% of the previous year's or years' emissions. The Limited Exemption for the rest of the full compliance period would be calculated as follows:

$$2019 \text{ LE} = 2016 + 2017 + (0.7)*2018$$
$$2020 \text{ LE} = 2016 + 2017 + (0.7)*2018 + (0.7)*2019$$

Similarly, after the surrender of the full compliance period compliance obligation due on November 1, 2021, all entities' Limited Exemption base will be reset and calculated as the sum of the two most recent years' verified emissions data reports:

$$2021 \text{ LE} = 2019 + 2020$$

**Section 2: Newer entities that register after January 1, 2018, with an annual emissions obligation due during the first year of a compliance period:**

CARB calculates the Limited Exemption based on available annual verified emissions data reports. If an entity has only one emissions data report, the Limited Exemption formula is adjusted accordingly to reflect the available emissions data report(s). For example, consider an entity that first crossed the emissions threshold in the 2018 calendar year, and then registered in 2019 to submit an annual obligation for its previous years' 2018 covered emissions. In 2019, when the first annual emissions obligation is due, CARB may only have the verified emissions data report for the calendar year 2018, in which the entity's covered emissions exceeded the emissions inclusion threshold. Therefore, when the entity registered in CITSS in 2019, its Limited Exemption was calculated as follows:

$$2019 \text{ LE} = 2018 + 2018 + (0.7)*2018$$

The following Limited Exemption calculations apply for subsequent years of the compliance period, until a new compliance period begins and the Limited Exemption resets.

$$2020 \text{ LE} = 2018 + 2018 + (0.7)*2018 + (0.7)*2019$$
$$2021 \text{ LE} = 2019 + 2020$$

**Section 3: Late Entrants Registering in the Last Year of a Compliance Period**

Since entities must register the year after they cross the emissions threshold, they will only have one emissions report in the first year after registering. For this situation, the Limited Exemption is calculated as twice the annual emissions contained in the emissions report for the first year that the entity has a compliance obligation. For

example, suppose a late entrant generated emissions above the threshold for the first time in 2019. When this entity initially registers in 2020 and must surrender an annual obligation due for 2019 calendar year covered emissions, its limited exemption would be:

$$2019 \text{ LE} = 2019 + 2019$$

On November 2, 2020, the Limited Exemption increases by the amount of the most recent emissions data report, less the 30% covered emissions accounted for by the annual compliance surrender event that year:

$$2020 \text{ LE} = 2019 + 2019 + (.7)*2019$$

Entities will surrender compliance instruments in 2021 to cover emissions obligations for the third full compliance period. A late entrant that crossed the threshold in 2019 will still owe emissions obligations for two calendar years (2019 and 2020 covered emissions). On November 2, 2021, the Limited Exemption for this late entrant will be revised to reflect both the additional emissions data report for 2020, and the removal of the oldest emissions data reports (both 2019):

$$2021 \text{ LE} = 2019 + 2020$$

After a late entrant has completed a full compliance period, the entity's Limited Exemption resets and the calculation of its' Limited Exemption is the same as all other entities that have completed at least one full compliance period, regardless of when they registered.

### **Summary Tables**

Table 1 illustrates the generic Limited Exemption calculations for an entity registered prior to January 1, 2018. The first column shows the date on which the Limited Exemption is calculated and the second column indicates which calendar year's covered emissions are used for the Limited Exemption calculation. Pursuant to section 95920(d)(2), the Limited Exemption will be increased on November 2 of each year by the amount of recently reported emissions that generate a compliance obligation, and reduced to reflect the amount of the annual compliance obligation that was surrendered for that year. After the full compliance period compliance event, the Limited Exemption resets and reflects the sum of the emissions contained in the two most recent emissions data reports. This cycle for Limited Exemption calculations repeats at the beginning of each new three-year compliance period.

**Summary Table 1**  
**Limited Exemption for an Entity Registered Before January 1, 2018: Generic**  
**Limited Exemption Calculation Methodology**

<b>Date</b>	<b>Limited Exemption Calculation</b>
November 2, 2018	2018 LE = 2016 + 2017
November 2, 2019	2019 LE = 2016 + 2017 + (0.7)*2018
November 2, 2020	2020 LE = 2016 + 2017 + (0.7)*2018 + (0.7)*2019
November 2, 2021	2021 LE = 2019 + 2020
November 2, 2022	2022 LE = 2019 + 2020 + (0.7)*2021
November 2, 2023	2023 LE = 2019 + 2020 + (0.7)*2021 + (0.7)*2022
November 2, 2024	2024 LE = 2022 + 2023

Table 2 shows the calculation of the Limited Exemption for a late entrant registering during a compliance period, say in June 2019 or in June 2020.

**Summary Table 2**  
**Limited Exemption for an Entity Registering After January 1, 2018**

<i>Date</i>	<i>Limited Exemption Calculation</i>
<i>At Registration: June 2019</i>	<i>2018 LE = 2018 + 2018</i>
<i>November 2, 2019</i>	<i>2019 LE = 2018 + 2018 + (0.7)*2018</i>
<i>November 2, 2020</i>	<i>2020 LE = 2018 + 2018 + (0.7)*2018 + (0.7)*2019</i>
<i>November 2, 2021</i>	<i>2021 LE = 2019 + 2020</i>

<i>Date</i>	<i>Limited Exemption Calculation</i>
<i>At Registration: June 2020</i>	<i>2019 LE = 2019 + 2019</i>
<i>November 2, 2020</i>	<i>2020 LE = 2019 + 2019 + (0.7)*2019</i>
<i>November 2, 2021</i>	<i>2021 LE = 2019 + 2020</i>