

Issued December 1, 2017

## California Cap-and-Trade Program

### Facts About Limited Exemption from the Holding Limit

*The California Cap-and-Trade Program includes a limit on the maximum number of allowances that an entity or a group of entities with a direct corporate association may hold at one time. The Program also includes a Limited Exemption to this Holding Limit that ensures covered entities are able to accumulate sufficient allowances to comply with their compliance obligations. This fact sheet provides information on the Limited Exemption.*

#### **1. What is the Limited Exemption to 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 it may hold. For purposes of the Limited Exemption, “current vintage” includes any allowances with a vintage equal to or prior to the current calendar year. Unlike a voluntarily associated entity,<sup>1</sup> a covered entity<sup>2</sup> must have the ability to accumulate the current vintage allowances it needs for compliance without violating the Holding Limit. CARB created the Limited Exemption to ensure covered entities are able to meet their compliance obligations without violating the holding limit. CARB uses a formula based on an entity’s annual reported and verified emissions reports to estimate how much the entity will need for compliance. When assessing whether an entity is below the holding limit, CARB excludes the allowances held by the entity up to its Limited Exemption from the Holding Limit calculation.

#### **1.1 How does an entity use the Limited Exemption?**

Only allowances in an entity’s Compliance Account in the Compliance Instrument Tracking System Service (CITSS) qualify for the Limited Exemption. When the number of current vintage allowances in an entity’s Holding Account approaches the Holding Limit, the entity should begin transferring allowances to its Compliance Account. For convenience, the entity account in CITSS displays the number of allowances the entity may add to its Holding Account without exceeding the limit. Similarly, CITSS displays an entity’s Limited Exemption value, the allowance holdings that count against the Limited Exemption, as well as the number of additional allowances an entity may add to the Compliance Account and stay within the Limited Exemption.

---

<sup>1</sup> A “voluntarily associated entity” or “general market participant” is defined as “any entity which did not meet the requirements of section 95811 or 95813 in this article [e.g., does not have a compliance obligation] and that intends to purchase, hold, sell, or voluntarily retire compliance instruments or any entity operating an offset project or early action offset project that is registered with ARB pursuant to subarticle 13 or 14 in this article.”

<sup>2</sup> A “covered entity” is an entity with a compliance obligation under the Cap-and-Trade Regulation.

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

CARB intends the Limited Exemption to allow an entity to acquire the allowances it needs for a compliance period. However, due to the timing of submitting verified emissions data, CARB does not know an entity's exact obligations for the compliance period until shortly before it becomes due. Therefore, CARB must use a running sum of past reported emissions to estimate the number of allowances an entity will need for the current compliance period. A more detailed discussion of the specific reports used is included below in Section 2.

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

Allowances allocated to an entity the year preceding their vintage year 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 would be included in the Holding Limit or Limited Exemption calculations on January 1 when they move to an entity's Holding or Compliance Account.

## **1.4 How does ARB calculate the Limited Exemption if CARB has assigned emissions to the entity in any year?**

If ARB has assigned emissions to an entity in the absence of an emissions data verification statement, then CARB will use the assigned emissions to calculate the Limited Exemption.

If CARB has not assigned emissions to an entity, and the emission reports are not available or verified at the time of a scheduled increase in the limited exemption, then CARB will use the amount of the most recently received emissions report submitted with a verification statement to calculate the Limited Exemption. CARB will update the Limited Exemption at the next scheduled change of the Limited Exemption.

See Section 2 of this guidance document for examples of how this calculation occurs in practice.

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

At the end of a compliance year, CARB will deduct the compliance obligation due for that calendar year from the Limited Exemption. In the case of an annual surrender deadline, CARB will deduct the amount of the annual compliance obligation due that calendar year (i.e., 30 percent of the previous year's reported and verified emissions).

At the end of a compliance period, CARB will reduce the Limited Exemption by removing covered emissions contained in emissions reports used to calculate the Limited Exemption, starting with the oldest report. The number of emissions reports removed from the calculation will equal the number of years in the compliance period. If CARB has already deducted an annual obligation from the Limited Exemption for a reporting year, ARB will deduct only the remaining obligation from the Limited

Exemption (i.e., 70 percent of the total reported and verified emissions for any year for which an annual obligation was met).

If the entity had any obligation carried over from a previous compliance period, CARB will deduct that amount from the Limited Exemption.

After a compliance event, CARB will increase the Limited Exemption by the amount of the most recently received annual emissions report.

See Section 2 of this guidance document for examples of how this calculation occurs in practice.

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

No, the Limited Exemption only applies to current vintage allowances that can be used to cover current emissions. 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 2019 and earlier emissions.

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

The Limited Exemption is a running sum of an entity's past reported covered emissions. The number of years' worth of reported emissions that are available for inclusion in the Limited Exemption depends on when the entity became a covered entity.

The sample calculations below demonstrate the calculations that applied as of November 2, 2017 to entities that were already registered as of January 1, 2017, those that registered in 2017, and those who only exceed the emissions threshold in the last year of a compliance period. If you do not see a calculation method that applies to your entity, please contact CARB staff.

### Entities already registered as of January 1, 2017

On November 2, 2017, after CARB conducted the annual compliance event, CARB calculated the Limited Exemption (LE) for entities already registered in the Program as of January 1, 2017 using the following years' reported covered emissions:

$$LE = 2015 + (70\% \text{ of } 2015) + (70\% \text{ of } 2016) + 2016^3$$

The regulation specifies the emissions reports that are included in this calculation in sections 95920(d)(2)(B) and 95920(d)(2)(D):

---

<sup>3</sup> Each year in this example represents the emissions year, such that 2015 represents 2015 verified emissions data as reported and verified in 2016, and 2016 represents 2016 verified emissions data as reported and verified in 2017.

- The oldest report for which the entity has a compliance obligation:<sup>4</sup> 2015
- All reports for which the entity has a compliance obligation: 2015, 2016
- Less annual obligations paid in a compliance period:  $(0.3 \times 2015) + (0.3 \times 2016)$
- Plus (on Nov. 2) the emissions in the most recent report: 2016

This calculation includes a reduction that reflects the entity's payment of the annual compliance obligations in 2016 and 2017 (for 2015 and 2016 emissions). The entity's Limited Exemption allows it to accumulate allowances to cover its remaining compliance period obligation plus one additional year, which allows the entity to accumulate for the obligation it will incur in 2018. Due to the timing of emissions reporting, CARB estimates the additional year's emissions using the most recent (2016) data.

On November 2, 2018, after the full compliance period compliance event, CARB will remove the covered emissions reported in the three oldest reports that CARB had not already deducted after the annual compliance events. See section 95920(d)(2)(F).

#### Entities that registered during 2017

Consider an entity that first crossed the emissions threshold in 2016 and registered in 2017. As of November 2, 2017, CARB will only have one emissions report for the entity in which its covered emissions exceed the threshold. However, on that date the entity will have concluded two years of covered emissions (2016 and 2017) and be about to begin a third (2018). CARB will use the most recent report (2016) to calculate the Limited Exemption as:

$$LE = 2016 + (70\% \text{ of } 2016) + 2016$$

This calculation includes a reduction that reflects the entity's payment of the annual compliance obligation in 2016.

#### Entities exceeding the emissions threshold in the last year of a compliance period

Entities that exceed the threshold in the last year of a compliance period have a compliance obligation for that year. However, they may satisfy that obligation at the end of the next compliance period. For example, an entity that became a covered entity in 2014 would not have covered its 2014 obligation either in 2015, and it will have to cover 2014 obligation in 2018 along with any remaining 2015-2017 obligation (end of the next compliance period). Prior to November 2, 2018, its Limited Exemption will include its reported 2014 emissions. This calculation will appear as:

$$LE = 2014 + 2015 + (70\% \text{ of } 2015) + (70\% \text{ of } 2016) + 2016$$

On November 2, 2018, after the entity covers those emissions, the emissions from the 2014 report will be removed from the entity's Limited Exemption.

---

<sup>4</sup> Any compliance obligation for the 2013-2014 full compliance period have already been surrendered, so those reporting years are no longer included in the calculation.

**3. 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's emissions could increase, for example, if it opens or purchases additional facilities or increases output at existing facilities.

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 an increase, 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.