

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

California Air Resources Board
February 3, 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

Outline

- Summary of cap-and-trade implementation and rulemaking activities
 - 2012 activities list posted on our webpage:
<http://www.arb.ca.gov/cc/capandtrade/2012activities.pdf>
- Linkage details
 - Evaluating WCI Partner jurisdiction programs

Implementation (1)

- Program registration deadline Jan 31, 2012
 - Approximately 440 registered entities
- Compliance Instrument Tracking System
 - System developed by SRA for ARB
 - Initial account activation available in spring 2012
 - Operated and maintained by WCI, Inc. through a service delivery contract

Implementation (2)

- Market services procurement – intent to award
 - Auction/reserve sale operator – Markit North America
 - Auction/reserve sale financial service provider – Deutsche Bank
 - Market monitor – Monitoring Analytics, LLC
 - Market monitoring trainer – Cutting Edge Capital
- Offset verifier training – proposals under review

Implementation (3)

- Market Simulation Group and Market Surveillance Committee
 - Interagency agreements with University of California
 - Public workshop in spring 2012
- Additional benchmarking for allowance allocation – Ecofys
- Developing interagency agreements for additional leakage risk analysis
- Regulation Guidance Documentation

Cap-and-Trade Rulemaking Activity

- Targeted rulemaking to consider accepting Quebec's cap-and-trade compliance instruments
 - June Board item
- Second rulemaking to address other Board direction, minor clarifications, new offset protocols
 - Fall Board item

Mandatory Greenhouse Gas Reporting Rulemaking Activity

- Modifications to support a linked cap-and-trade program
- Align with updated U.S. EPA emissions reporting method for Petroleum and Natural Gas systems
- Timing coordinated with cap-and-trade program

Western Climate Initiative: Background

- Western Climate Initiative (WCI) was founded in 2007
- Goals
 - Develop a regional target for GHG reductions
 - Establish a multi-state registry to track GHG emissions
 - Develop a design for a market-based program to reach the regional GHG emissions target
 - Promote the development and use of clean and renewable energy
 - Increase efficiency of energy use

Western Climate Initiative: Status

- Focus on market-based programs
 - Includes California, Quebec, Ontario, British Columbia and Manitoba
- Established non-profit corporation Western Climate Initiative, Inc., in November 2011
 - WCI Inc. will provide administrative and technical support to the participating jurisdictions' programs
- North America 2050 (NA 2050)

Status of WCI Partner Cap-and-Trade Regulations

- California and Quebec have adopted cap-and-trade regulations
- Ontario and British Columbia are still developing their regulations
- Regulations are adopted and implemented under each jurisdictions' authority
- Each set of regulations consistent with WCI program design recommendations

Linkage Rulemakings

- ARB must complete a new rulemaking to accept compliance instruments from a WCI Partner, which will include:
 - Review and evaluate the Partner's final program
 - Full public stakeholder process subject to the Administrative Procedure Act
 - Board consideration of revisions to ARB's cap-and-trade regulation

California and Quebec

- Currently considering how to harmonize program elements where necessary for consistency and effective program administration, including
 - Cap-and-Trade and Mandatory GHG Reporting Regulations
 - Tracking system requirements
 - Market policies and mechanics
- Stakeholder input requested

Auctions

- Auctions to be conducted jointly
 - Ensures fair and equal access to California and Quebec allowances
- Rule changes needed for harmonization
 - Enable bids in both US and Canadian currencies
 - Establish a single floor price in each jointly conducted auction
 - Harmonize tie-breaking requirements
 - Enable purchased allowances to be a bundle of offered allowances from California and Quebec

Reserve Sales

- Jurisdictions considering operating separate, but consistent reserves
 - Consistent pricing and timing
- Propose that only a jurisdiction's covered entities be eligible to purchase:

	Buy from CA Reserve?	Buy from QC Reserve?
CA Covered Entity	Eligible	Ineligible
QC Covered Entity	Ineligible	Eligible

Purchase Limits

- Used as a tool to deter exertion of market power in an individual auction
- Re-evaluate in response to board direction and linked program
- Considering second compliance period limits

Holding Limits & Beneficial Holdings

- Holding limits
 - Used to deter exertion of market power in the spot market
 - For 2013 vintages, under current regulations, limits are:
 - ~6 MMT in CA
 - ~1 MMT in QC
 - Limits will be harmonized to account for linkage of allowance budgets
- Beneficial holdings
 - CA has registration of beneficial holdings, QC does not

Corporate Associations

- Corporate association reporting is a necessary component of purchase and holding limits
- California
 - Disclosure at 25% common ownership
 - Association at 50%
- Quebec
 - Disclosure at 20%
 - Association at 20%

Reporting for Sources Below C&T Emissions Threshold

- WCI design documents recommend reporting of combustion and process emissions for entities between 10-25K CO₂e to monitor for leakage
 - Quebec currently takes this approach
- California MRR – only report combustion emissions if between 10-25K CO₂e

Next Steps

- Release discussion draft of linkage regulation in early Spring
- Additional public workshops
- Notice of proposed linkage regulation and Initial Statement of Reasons – May
- Board consideration – June

Written Comments

- Due by February 17th, 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
<u>apandtrade</u>)

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