

California Cap-and-Trade Cost Containment Workshop

June 25, 2013

Workshop Agenda

- ARB Staff presentation
- Presentation by Jean-Yves Benoit, Government of Quebec
- Expert presentations and discussion
 - Dallas Burtraw, Resources for the Future
 - Jim Bushnell, University of California, Davis
 - Brian Murray, Duke University
- Break (approximately 3:00)
- Continued discussion and public comment
- Wrap up

Logistical Information

- 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

- Written comments will be accepted until July 9th at the website below

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

Cap & Trade Program

- AB 32 portfolio
- Declining cap on GHG emissions: 2013-2020
- Trading of emission allowances and offset credits
- Status:
 - First auction held November 2012. Continuing quarterly
 - First allowance allocation in 2012. Continuing annually
 - Compliance obligation started January 1, 2013
 - First compliance deadline is November 2014

Cap and Trade Program Features: Cost Containment

- Allowance banking
- Multi-year compliance periods
- Broad program scope
- Emissions reduction by direct regulation
- Administrative allocation of allowances
- Emissions offsets
- Auction price floor
- Allowance Price Containment Reserve (Reserve)

The Reserve

- Pool of approximately 122 million allowances
- Available for purchase by compliance entities at three pre-established price tiers
- Four Reserve sales each year
- Reduces the likelihood that allowance prices exceed the highest price tier of the Reserve

Board Resolution 12-51

- Directs ARB to develop a proposal for incorporating additional cost containment mechanisms into the program that:
 - Ensure allowance price will not exceed the highest price tier of the Reserve
 - Maintain the environmental objective of the program
 - Are effective in a reasonable range of plausible conditions during the 2013 – 2020 period

Policy Options for Cost Containment in Response to Board Resolution 12-51

California Air Resources Board
June 25, 2013

Presentation Outline

- Circumstances that could lead to higher than expected allowance prices
- Policy approaches for:
 - Price Objective: Ensure that allowance prices will not exceed the highest price tier of the Reserve
 - Environmental Objective: Maintain the environmental objectives of the program

Circumstances Leading to Higher than Expected Allowance Prices

- Higher than expected emissions from existing sources
- Higher than expected emissions from new sources
- Regulatory program less effective than expected
- Offsets less available than expected

Policy Approaches: Price Objective

- Increase the availability of allowances at the highest price tier of the Reserve
- Allow fulfillment of compliance obligation through a fixed price-per-ton payment at the highest price tier of the Reserve
- Delay compliance obligation
- Cancel compliance obligation
- Maintain existing cost containment features

Increase the Availability of Allowances at the Highest Price Tier of the Reserve

- Put additional allowances in the highest price tier of the Reserve
- Potential options:
 - Quantity added
 - Frequency of availability
 - Eligibility to purchase
- Can achieve the Resolution price objective
- Appears feasible within the program regulatory changes planned for 2013

Allow Fulfillment of Compliance Obligation Through Fixed Price-Per-Ton Payment

- Allow compliance entities to fulfill their compliance obligation by paying a fee equal to the highest Reserve price for each metric ton of emissions
- Can achieve the Resolution price objective
- Challenges:
 - Authority
 - New administrative requirements
- May not be feasible within the program regulatory changes planned for 2013

Delay Compliance Obligation

- Delay the date of compliance for a predetermined length of time under specific conditions
- Allow the use of future vintage allowances for current (delayed) compliance
- May achieve the Resolution price objective in response to temporary increases in the demand for allowances
- Challenges:
 - May not achieve Resolution price objective in all cases
 - Requires precise definition of conditions that trigger the delay
 - May add uncertainty

Cancel Compliance Obligation

- Cancel compliance obligation for a predetermined length of time under specific conditions
- Reduce compliance obligation by the amount of emissions reported during the cancellation period
- Challenges:
 - Requires precise definition of conditions that trigger the compliance cancellation
 - The canceled compliance obligation cannot be easily adjusted to balance supply and demand
 - May add uncertainty

Maintain Existing Program Features

- Rely on existing program features, or consider additional features later in the program
- Requires no program regulatory changes
- Challenges:
 - May not achieve the Resolution price objective
 - Fails to provide certainty

Policy Approaches: Environmental Objective

- Resolution requires additional cost containment mechanisms maintain environmental objectives of program
- Policy approaches may enable additional emissions
 - Measurable
- Compensating emissions reduction

Redistribute Existing Allowances Within the 2013 – 2020 Period

- Redistributes the existing pool of allowances if needed for top tier Reserve sales
- Does not increase the cumulative supply of allowances
- Can achieve Resolution environmental objective for temporary demand imbalances early in the program
- Limited by fixed quantity of existing allowances

Commit to Additional Emission Reductions from the Post – 2020 Period

- Allow emissions to be higher than planned in the 2013–2020 period if needed to achieve Resolution price objective
- Commit to additional emissions reduction from anticipated programs designed to meet post – 2020 AB 32 goals
- Can achieve Resolution environmental objective
- Challenges:
 - Post-2020 programs not yet defined
 - Links between current and future programs may limit effectiveness

Additional Emissions Reductions Inside California Prior to 2020

- Mandate increased emissions reduction from California sources not covered by the cap-and-trade program
- Challenges:
 - Cost and availability of additional emission reductions
 - Timing to develop and achieve additional emission reductions by 2020

Additional Emissions Reductions Outside California

- Obtain emissions reduction outside of California
 - Retire international offset credits
 - Retire allowances from non-linked programs
 - Retire offsets from jurisdiction-run sector crediting programs
- Challenges:
 - Resources and authority
 - Future availability and price of instruments are uncertain

Contacts

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