Cap-and-Trade Workshop
Compliance & Information Requirements

California Air Resources Board
June 25, 2013
Webcast Information

- Slides posted:
  
  http://www.arb.ca.gov/cc/capandtrade/meetings/meetings.htm

- Email questions and comments:
  
  auditorium@calepa.ca.gov
Agenda

- Status Update & Background
- Morning Session 09:30 – noon
  - Compliance Instruments Retirement and Deadlines
  - Information Sharing & Reporting
- Lunch noon – 01:00PM
- Afternoon Session 01:00PM – 04:00PM
  - Cost Containment Panel Discussion
Status Update

- Cap-and-Trade Regulation effective January 1, 2012
- Regulatory Amendments effective September 1, 2012
- Emissions Compliance January 1, 2013
- Amendments for Linkage approved by ARB Board April 2013
- Additional Amendments and Offset Protocols
  - Anticipated Board consideration Fall 2013
- California and Québec linked program January 2014
## Background

### Compliance Periods

<table>
<thead>
<tr>
<th>Compliance Period</th>
<th>Year of Covered Emissions</th>
<th>Date of Compliance Obligation</th>
<th>Annual / Triennial</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>First</strong></td>
<td>2013</td>
<td>11/01/2014</td>
<td>Annual</td>
</tr>
<tr>
<td></td>
<td>2014</td>
<td>11/01/2015</td>
<td>Triennial</td>
</tr>
<tr>
<td><strong>Second</strong></td>
<td>2015</td>
<td>11/01/2016</td>
<td>Annual</td>
</tr>
<tr>
<td></td>
<td>2016</td>
<td>11/01/2017</td>
<td>Annual</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td>11/01/2018</td>
<td>Triennial</td>
</tr>
<tr>
<td><strong>Third</strong></td>
<td>2018</td>
<td>11/01/2019</td>
<td>Annual</td>
</tr>
<tr>
<td></td>
<td>2019</td>
<td>11/01/2020</td>
<td>Annual</td>
</tr>
<tr>
<td></td>
<td>2020</td>
<td>11/01/2021</td>
<td>Triennial</td>
</tr>
</tbody>
</table>
Background (cont.)

- Compliance instruments valid for surrender (Subarticle 4)
  - CA GHG Allowance
  - Offset credits issued by ARB
  - Allowances from Allowance Price Containment Reserve

- Once linked to Québec (January 2014)
  - Québec allowances
  - Offset credits issued by Québec
Offset usage limit

- 8% limit on use of offset credits during a compliance period (§ 95854)
  - Note: Compliance period refers to three-year timeframes (two-year timeframe in first period)
- No offset usage limit on annual surrender
### Background (cont.)

- Quantity and vintage of compliance instruments to surrender (§ 95855, § 95856)

<table>
<thead>
<tr>
<th>Year of Covered Emissions</th>
<th>Date of Compliance Obligation</th>
<th>Annual / Triennial</th>
<th>Compliance Obligation</th>
<th>Eligible Vintages</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>11/01/2014</td>
<td>Annual</td>
<td>30% of 2013 emissions</td>
<td>2013</td>
</tr>
<tr>
<td>2014</td>
<td>11/01/2015</td>
<td>Triennial</td>
<td>70% of 2013 emissions 100% of 2014 emissions</td>
<td>2013, 2014</td>
</tr>
<tr>
<td>2016</td>
<td>11/01/2017</td>
<td>Annual</td>
<td>30% of 2016 emissions</td>
<td>2013 – 2016</td>
</tr>
<tr>
<td>2017</td>
<td>11/01/2018</td>
<td>Triennial</td>
<td>70% of 2015-2016 100% of 2017 emissions</td>
<td>2013 – 2017</td>
</tr>
</tbody>
</table>
Surrender Example

- Emissions with compliance obligation: 100,000 mtCO$_2$e for each of 2013 and 2014
- Surrender of allowances only

<table>
<thead>
<tr>
<th>Year of Covered Emissions</th>
<th>Date of Compliance Obligation</th>
<th>Available Compliance Instruments in CITSS Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>November 1, 2014</td>
<td>2013 allowances: 80,000</td>
</tr>
</tbody>
</table>

Reconciliation

- 2014: annual compliance obligation = 30,000 mtCO$_2$e
- 2013 vintage allowances surrendered in 2014 = 30,000
Surrender Example (cont.)

Reconciliation

- 2015: triennial compliance obligation = 200,000 mtCO$_2$e
  - Annual compliance obligation fulfilled with 2013 allowances = 30,000 mtCO$_2$e
  - 2013 vintage allowances surrendered in 2015 = 50,000
  - 2014 vintage allowances surrendered in 2015 = 120,000
Surrender Example 2

Assumptions

- Emissions with compliance obligation: 100,000 mtCO$_2$e for each of 2013 and 2014
- Surrender of allowances and offsets

<table>
<thead>
<tr>
<th>Year of Covered Emissions</th>
<th>Date of Compliance Obligation</th>
<th>Available Compliance Instruments in CITSS Accounts</th>
</tr>
</thead>
</table>
| 2013                      | November 1, 2014             | 2013 offsets: 60,000  
2013 allowances: 20,000 |

Reconciliation

- 2014: annual compliance obligation = 30,000 mtCO$_2$e
  - 2013 vintage offsets surrendered in 2014 = 30,000
Surrender Example 2 (cont.)

**Reconciliation**

- **2015**: triennial compliance obligation = 200,000 mtCO\(_2\)e
  - Annual compliance obligation fulfilled with 2013 offsets = 30,000 mtCO\(_2\)e
    - 8% offset limit of triennial compliance obligation = 16,000 mtCO\(_2\)e → 14,000 of 30,000 vintage 2013 surrendered offsets excluded
  - 2013 vintage allowances surrendered in 2015 = 80,000
  - 2014 vintage allowances surrendered in 2015 = 100,000
  - Total triennial surrender = 180,000 allowances + 16,000 offsets
  - Triennial compliance period shortfall: 4,000 mtCO\(_2\)e
Potential “True-Up” Allowances

- “Next-Year” vintage allowances allocated to correct historical allocation that was based on estimate of production/emissions
  - Allocation occurs in the calendar year prior to budget year
    - Based on estimates of future production/emissions
- “True-up” accounts for:
  - Difference in estimated production and actual production reported to MRR in that budget year
  - Allocation to new sectors that have not received initial allocation
  - Changes to benchmarks
    - Retroactively applied to previous allocations
Order of Compliance Instruments Retirement

- Regulation is silent about the order of compliance instrument retirement
- Need to specify retirement order in Regulation
- Québec specifies retirement order in their regulation
Order of Compliance Instruments Retirement

Staff Proposal:

• Annual Compliance Obligation

1. Offset credits: oldest first, not subject to 8% limit
2. Allowances purchased from the Allowance Price Containment Reserve
3. Allowances: earlier vintages first
4. “True-up” allowances up to a predetermined entity limit based on the “true-up” amount
Order of Compliance Instruments Retirement

Staff Proposal:

- Triennial Compliance Obligation
  1. Offset credits: oldest first, subject to 8% limit
     a. If 8% limit reached, offsets exceeding 8% limit excluded
  2. Allowances purchased from the Allowance Price Containment Reserve
  3. Allowances: earlier vintages first
  4. “True-up” allowances: up to a predetermined entity limit based on “true-up” amount
Considerations

- 8% offset limit applies to compliance obligation at the end of full compliance period
- Diligence required when surrendering offsets to meet annual compliance obligation

<table>
<thead>
<tr>
<th>Year of Covered Emissions</th>
<th>Date of Compliance Obligation</th>
<th>Available Compliance Instruments in CITSS Accounts</th>
</tr>
</thead>
</table>
| 2013                      | November 1, 2014              | 2013 offsets: 60,000  
|                           |                               | 2013 allowances: 20,000                         |
| 2014                      | November 1, 2015              | 2013 allowances: 60,000  
|                           |                               | 2014 allowances: 100,000                        |

- Annual compliance obligation fulfilled with 2013 offsets = 30,000 mtCO₂e
- 8% offset limit of triennial compliance obligation = 16,000 mtCO₂e → 14,000 of 30,000 vintage 2013 surrendered offsets excluded
- 2013 vintage allowances surrendered in 2015 = 80,000
- 2014 vintage allowances surrendered in 2015 = 100,000
- Triennial compliance period shortfall: 4,000 mtCO₂e
Considerations (cont.)

- No holding limit for offsets
  - Holding limit (§ 95920) applies to all “current” vintage allowances, earlier vintage allowances, and APCR allowances that can be used to satisfy the entity’s compliance obligation

- Applicability to Québec beginning 01/01/2014
  - 8% offset limit applies
  - Allowance retirement by vintage year without consideration for jurisdiction
Compliance Timelines

- Many deadlines to consider between August and November
  - Late September includes Reserve Sale prior to the Nov 1 surrender deadline
  - In some cases, compliance obligation not known until after the registration period ends for the Reserve Sale
  - Potential “true-up” allowances allocated on same day as compliance surrender due date

- Should dates be adjusted?
Compliance Timeline

- **APCR sale Notice Posted**
- **Emissions Verification**
- **Application window closes**
- **Bid guarantee due**
- **September APCR sale**
- **Compliance obligation finalized natural gas suppliers**
- **Assigned emissions level finalized**
- **Settlement invoice sent to participants**

**Compliance Obligation Due & Allocation**

**Timeline**:
- Aug 30
- Sept 3
- Sept 9
- Sept 16
- Sept 25
- Sept 27
- Oct 3
- Oct 6
- Oct 10
- Nov 1
Questions
Public Information Sharing & New Reporting Requirements

California Air Resources Board
June 25, 2013
Proposed Calendar of Information Release Dates

<table>
<thead>
<tr>
<th>Month</th>
<th>Allocation Data</th>
<th>Compliance Obligation Data</th>
<th>CITSS Registrants</th>
<th>Retired Instruments</th>
<th>Compliance Account Balance</th>
<th>Offset Project Data</th>
<th>Auction Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1st business Wed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Feb</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1st business Wed</td>
<td>1st business Wed</td>
<td>Quarterly Auction Report</td>
</tr>
<tr>
<td>Mar</td>
<td></td>
<td></td>
<td>last business day</td>
<td>last business day</td>
<td>1st business Wed</td>
<td>60-day notice for 2nd Auction</td>
<td></td>
</tr>
<tr>
<td>Apr</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1st business Wed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>May</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1st business Wed</td>
<td>1st business Wed</td>
<td>Quarterly Auction Report</td>
</tr>
<tr>
<td>Jun</td>
<td></td>
<td></td>
<td>last business day</td>
<td>last business day</td>
<td>1st business Wed</td>
<td>60-day notice for 3rd Auction</td>
<td></td>
</tr>
<tr>
<td>Jul</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1st business Wed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aug</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1st business Wed</td>
<td>1st business Wed</td>
<td>Quarterly Auction Report</td>
</tr>
<tr>
<td>Sep</td>
<td></td>
<td></td>
<td>last business day</td>
<td>last business day</td>
<td>1st business Wed</td>
<td>60-day notice for 4th Auction</td>
<td></td>
</tr>
<tr>
<td>Oct</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1st business Wed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nov</td>
<td></td>
<td></td>
<td>1st business day</td>
<td></td>
<td>1st business Wed</td>
<td>1st business Wed</td>
<td>Quarterly Auction Report</td>
</tr>
<tr>
<td>Dec</td>
<td></td>
<td>(12/1 or first business day) industrial or EDU allocation</td>
<td>last business day</td>
<td>middle of the month</td>
<td>last business day</td>
<td>(12/1 or first business day) Release Reserve Price and next year’s auction budget.</td>
<td>60-day notice for 1st Auction</td>
</tr>
</tbody>
</table>
Allocation Data

- Updated annually on December 1
- Direct distribution to covered entities for industrial assistance
  - Will include entity CITSS ID numbers
- Direct distribution to electrical distribution utilities on behalf of ratepayers
Compliance Obligation Data

- Facility compliance obligation emissions
  - [http://www.arb.ca.gov/cc/capandtrade/covered_entities_011013_v2.xlsx](http://www.arb.ca.gov/cc/capandtrade/covered_entities_011013_v2.xlsx)

- Release Date
  - Annually 12:00 (noon) Pacific Time, November 1, or first business day after
  - Note: Each year would have a separate column and then an aggregate column for the emissions for the compliance period(s).
  - MRR Inventory Data: Annual release at 12:00 (noon) Pacific Time, November 1, or first business day, with no reference to covered emissions
CITSS Registrant Data

- Registered entities in CITSS
  - CITSS ID with legal name (not account #)
  - Individual VAE name
  - Not currently posted
- Proposed Release Date
  - 12:00 (noon) Pacific Time; Last Business Day of Quarter
    - Q1: March 29, 2013
    - Q2: June 28, 2013
    - Q3: September 31, 2013
    - Q4: December 31, 2013
## CITSS Registrant Data – Example

<table>
<thead>
<tr>
<th>CITTS Acct Number</th>
<th>Entity Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>CA1385</td>
<td>Cheesy Garlic Bread</td>
</tr>
<tr>
<td>CA1386</td>
<td>Chicken &amp; Waffle</td>
</tr>
<tr>
<td>CA1387</td>
<td>Sriracha</td>
</tr>
<tr>
<td>CA1388</td>
<td>Dill Pickle</td>
</tr>
<tr>
<td>CA1389</td>
<td>Root Beer</td>
</tr>
<tr>
<td>CA1390</td>
<td>Banana Split</td>
</tr>
<tr>
<td>CA1391</td>
<td>Chili &amp; Chocolate</td>
</tr>
<tr>
<td>CA1392</td>
<td>Orange Zest</td>
</tr>
</tbody>
</table>
Retired Compliance Instrument Data

- Instruments in ARB’s Retirement Account
  - Not currently posted

- Proposed release Date
  - 12:00 (noon) Pacific Time, December 15, or first business day thereafter
## Retired Compliance Instrument Data – Example

<table>
<thead>
<tr>
<th>Entity Name</th>
<th>Compliance Event</th>
<th>Entity Type</th>
<th>2013 Vintage</th>
<th>2014 Vintage</th>
<th>2009 Offset by Type</th>
<th>2010 Offset by Type</th>
<th>2011 Offset by Type</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sriracha</td>
<td>November 1 2014</td>
<td>Covered/Opt-in</td>
<td>1003</td>
<td>1004</td>
<td>1005</td>
<td>1006</td>
<td>1007</td>
<td>5025</td>
</tr>
<tr>
<td></td>
<td>November 1 2015</td>
<td></td>
<td>2066</td>
<td>2066</td>
<td>2066</td>
<td>2066</td>
<td>2066</td>
<td>10330</td>
</tr>
<tr>
<td>Dill Pickle</td>
<td>November 1 2014</td>
<td>VAE</td>
<td>1005</td>
<td>1006</td>
<td>1007</td>
<td>1008</td>
<td>1009</td>
<td>5035</td>
</tr>
<tr>
<td></td>
<td>November 1 2015</td>
<td></td>
<td>4074</td>
<td>4076</td>
<td>4078</td>
<td>4080</td>
<td>4082</td>
<td>20390</td>
</tr>
<tr>
<td>Banana Split</td>
<td>November 1 2014</td>
<td>Covered/Opt-in</td>
<td>3045</td>
<td>3045</td>
<td>3045</td>
<td>3045</td>
<td>3045</td>
<td>15225</td>
</tr>
<tr>
<td></td>
<td>November 1 2015</td>
<td></td>
<td>5087</td>
<td>5087</td>
<td>5087</td>
<td>5087</td>
<td>5087</td>
<td>25435</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>16280</td>
<td>16284</td>
<td>16288</td>
<td>16292</td>
<td>16296</td>
<td>81440</td>
</tr>
</tbody>
</table>
Compliance Account Information

- Compliance Account Instruments
  - Staff considering alternatives to individual accounts
  - Could be aggregated across compliance accounts
  - Not currently posted

- Proposed release Date
  - 12:00 (noon) Pacific Time; Last Business Day of Quarter
    Q1: March 29, 2013
    Q2: June 28, 2013
    Q3: September 31, 2013
    Q4: December 31, 2013

- Staff considering adjustments to frequency
Compliance Account Discussion

- When do individual account balances reveal if an entity is going long?
- When do individual account balances reveal if an entity is short?
- Balancing risks to the market
  - Does revealing an individual compliance account balance expose a covered entity to manipulation?
  - Does revealing this information prevent manipulation by someone tightening the market?
Offset Project Data

- Offset Project Level Data
  - Will be published once ARB compliance credits are issued
  - Not currently posted

- Release Date
  - 12:00 (noon) Pacific Time, first business Wednesday of each month
## Offset Project Data - Example

### Example: List of Early Action Offset Projects

<table>
<thead>
<tr>
<th>ARB Project Identification #</th>
<th>Offset Project Name</th>
<th>Listing Entity</th>
<th>Type of Project</th>
<th>Offset Project Location</th>
<th>Project Documentation</th>
<th>EAOP Project ID#</th>
<th>Early Action Listing Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAODXXXX</td>
<td>Project A</td>
<td>Operator 1</td>
<td>Digester, forestry, etc</td>
<td>Location A</td>
<td>Name of EAOP (i.e. ACR)</td>
<td>ACRXXX</td>
<td>PDF</td>
</tr>
<tr>
<td></td>
<td>Project B</td>
<td>Holder 1</td>
<td>Location 2</td>
<td>Name of EAOP (i.e. CAR)</td>
<td></td>
<td>CARXXX</td>
<td>PDF</td>
</tr>
</tbody>
</table>

### Example: Project Level Data

<table>
<thead>
<tr>
<th>ARB Project ID # by Reporting Period</th>
<th>Reporting Period Dates</th>
<th>Vintage Year</th>
<th>ARB Offset Credits Issued Total number/vintage yr</th>
<th>Date of Issuance</th>
<th>Invalidation Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAODXXXXX-B</td>
<td>1/1/2011 – 12/31/2011</td>
<td>2011</td>
<td>30,000</td>
<td>Dec 1 2013</td>
<td>3 years</td>
</tr>
</tbody>
</table>
Questions
Information Reporting in CITSS

California Air Resources Board
June 25, 2013
Current Transfer Request Information Content

- Required fields are the same for all transaction types:
  - Account representatives
  - Account numbers
  - Serial Numbers
  - Date of transaction agreement
  - Settlement date
  - Price
Proposed Fields to be Removed

- Serial numbers
- Staff proposes to replace the following generic fields with fields specific to type of agreement:
  - Date of transaction agreement
  - Settlement date
  - Price
Proposed Fields to Add

- Staff will propose Regulation amendments to require reporting in CITSS of:
  - Type of Compliance Instrument
  - Vintage of compliance instrument
Proposed Process for Reporting

- Identify the type of transaction agreement for which transfer request is submitted

- Enter information specific to that type of agreement
Identify Type of Transaction Agreement

- Staff will propose Regulation amendments to require reporting in CITSS of:
  - Spot Bilateral – no longer than 3 days from signing until delivery
  - Customized Bilateral – no less than 4 days from signing until delivery
  - Exchange-Traded Contracts – spot and futures
Information Specific to Spot Bilateral Agreements

- Date entered into transaction agreement
- Settlement Date
  - If transfer is final term to be settled: date transfer request submitted.
  - If other terms to be settled after transfer: date other terms scheduled to be settled.
- Price
Information Specific to Customized Bilateral Agreements

- Date entered into transaction agreement
- Date the agreement terminates
- If the contract contains provisions for further compliance instrument transfers, enter the transfer frequency (e.g. quarterly)
- If the contract is a “bundled” purchase of instruments and other products, identify products (e.g. natural gas)
- Price
  - Fixed price
  - Base plus margin
Information Specific to Exchange-Traded Contracts

- Name of Exchange
- Exchange code for contract
- Type of contract (Spot, Future)
- Date of close of trading for the contract
- Price at close of trading
Check Boxes for Zero Price

- The regulation will allow for entities to specify a zero price for transfers:
  - Between direct corporate associates
  - Between an entity’s holding and compliance account
  - From a POU to a JPA or other POU as part of joint venture generation project
  - From a POU to a federal power authority to cover emissions from imported power
  - From a utility to generator under a tolling agreement or other contract for power not specifying instrument price
  - Under “bundled” agreement that does not specify price
Next Steps

- Staff requests comments on today’s presentation
- All written comments due by 5 PM PT, July 9, 2013
  
  http://www.arb.ca.gov/cc/capandtrade/meetings/meetings.htm
Additional Information

- Cap-and-Trade Program
  http://www.arb.ca.gov/cc/capandtrade/capandtrade.htm

- Join the cap-and-trade list serve
  http://www.arb.ca.gov/listserv/listserv_ind.php?listname=capandtrade
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Dr. Ray Olsson, Staff, Cap-and-Trade Program Monitoring
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Questions