

# **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](mailto: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

| Compliance Period | Year of Covered Emissions | Date of Compliance Obligation | Annual / Triennial |
|-------------------|---------------------------|-------------------------------|--------------------|
| First             | 2013                      | 11/01/2014                    | Annual             |
|                   | 2014                      | 11/01/2015                    | Triennial          |
| Second            | 2015                      | 11/01/2016                    | Annual             |
|                   | 2016                      | 11/01/2017                    | Annual             |
|                   | 2017                      | 11/01/2018                    | Triennial          |
| Third             | 2018                      | 11/01/2019                    | Annual             |
|                   | 2019                      | 11/01/2020                    | Annual             |
|                   | 2020                      | 11/01/2021                    | Triennial          |

# 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

# Background (cont.)

- 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)

| Year of Covered Emissions | Date of Compliance Obligation | Annual / Triennial | Compliance Obligation                           | Eligible Vintages |
|---------------------------|-------------------------------|--------------------|---|-------------------|
| 2013                      | 11/01/2014                    | Annual             | 30% of 2013 emissions                           | 2013              |
| 2014                      | 11/01/2015                    | Triennial          | 70% of 2013 emissions<br>100% of 2014 emissions | 2013, 2014        |
| 2015                      | 11/01/2016                    | Annual             | 30% of 2015 emissions                           | 2013 – 2015       |
| 2016                      | 11/01/2017                    | Annual             | 30% of 2016 emissions                           | 2013 – 2016       |
| 2017                      | 11/01/2018                    | Triennial          | 70% of 2015-2016<br>100% of 2017 emissions      | 2013 – 2017       |

# Surrender Example

- Emissions with compliance obligation: 100,000 mtCO<sub>2</sub>e for each of 2013 and 2014
- Surrender of allowances only

| Year of Covered Emissions | Date of Compliance Obligation | Available Compliance Instruments in CITSS Accounts |
|---------------------------|-------------------------------|--|
| 2013                      | November 1, 2014              | 2013 allowances: 80,000                            |

## Reconciliation

- 2014: annual compliance obligation = 30,000 mtCO<sub>2</sub>e
  - 2013 vintage allowances surrendered in 2014 = 30,000

# Surrender Example (cont.)

| Year of Covered Emissions | Date of Compliance Obligation | Available Compliance Instruments in CITSS Accounts |
|---------------------------|-------------------------------|--|
| 2013                      | November 1, 2014              | 2013 allowances: $80,000 - 30,000 = 50,000$        |
| 2014                      | November 1, 2015              | 2014 allowances: 200,000                           |

## Reconciliation

- 2015: triennial compliance obligation = 200,000 mtCO<sub>2</sub>e
  - Annual compliance obligation fulfilled with 2013 allowances = 30,000 mtCO<sub>2</sub>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<sub>2</sub>e for each of 2013 and 2014
- Surrender of allowances and offsets

| Year of Covered Emissions | Date of Compliance Obligation | Available Compliance Instruments in CITSS Accounts |
|---------------------------|-------------------------------|--|
| 2013                      | November 1, 2014              | 2013 offsets: 60,000<br>2013 allowances: 20,000    |

## Reconciliation

- 2014: annual compliance obligation = 30,000 mtCO<sub>2</sub>e
  - 2013 vintage offsets surrendered in 2014 = 30,000

# Surrender Example 2 (cont.)

| Year of Covered Emissions | Date of Compliance Obligation | Available Compliance Instruments in CITSS Accounts                  |
|---------------------------|-------------------------------|---|
| 2013                      | November 1, 2014              | 2013 offsets: $60,000 - 30,000 = 30,000$<br>2013 allowances: 20,000 |
| 2014                      | November 1, 2015              | 2013 allowances: 60,000<br>2014 allowances: 100,000                 |

## Reconciliation

- 2015: triennial compliance obligation = 200,000 mtCO<sub>2</sub>e
  - Annual compliance obligation fulfilled with 2013 offsets = 30,000 mtCO<sub>2</sub>e
    - 8% offset limit of triennial compliance obligation = 16,000 mtCO<sub>2</sub>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<sub>2</sub>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

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

- Annual compliance obligation fulfilled with 2013 offsets = 30,000 mtCO<sub>2</sub>e
  - 8% offset limit of triennial compliance obligation = 16,000 mtCO<sub>2</sub>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
- Triennial compliance period shortfall: 4,000 mtCO<sub>2</sub>e

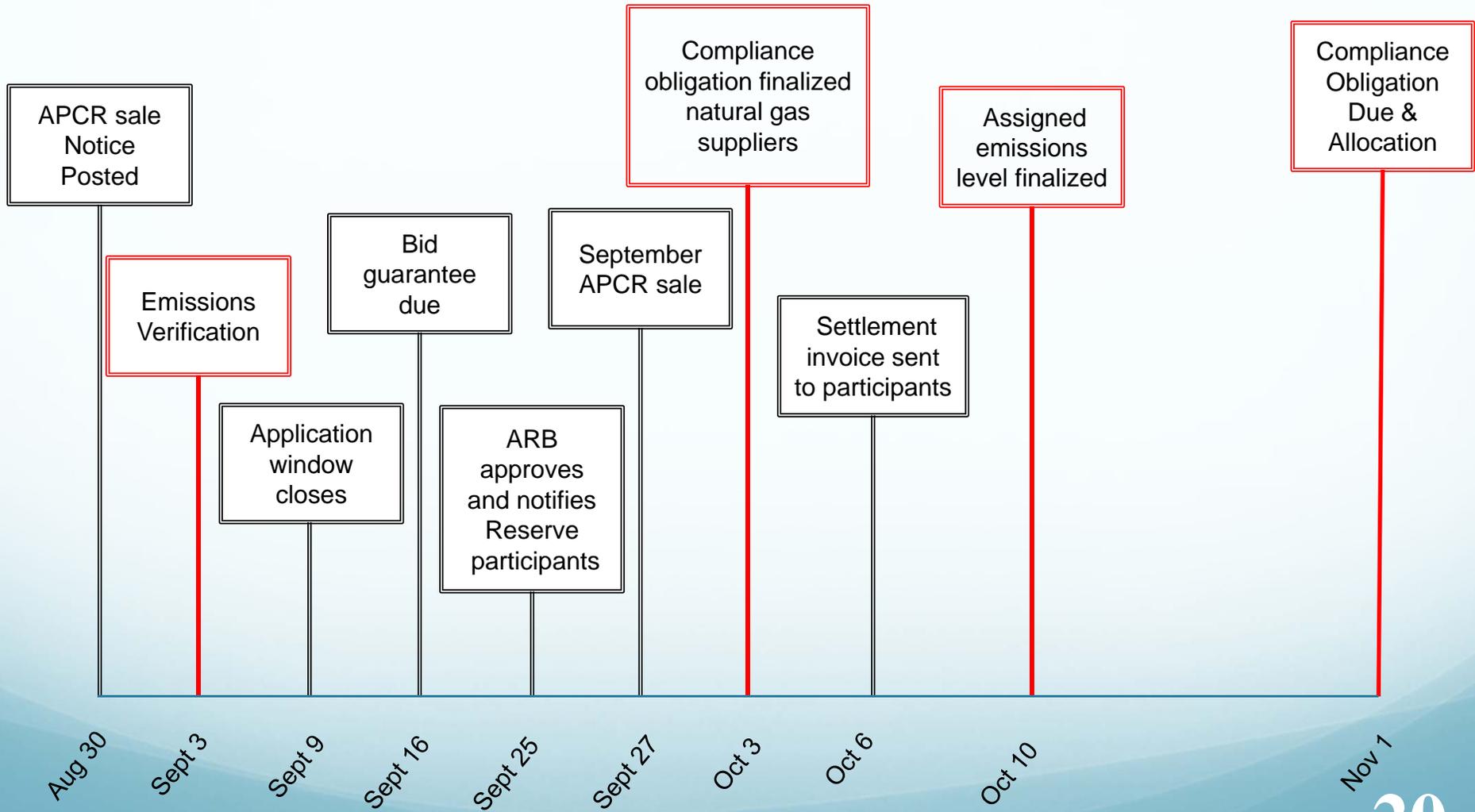
# Considerations (cont.)

- 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



# Questions

# **Public Information Sharing & New Reporting Requirements**

California Air Resources Board  
June 25, 2013

# Proposed Calendar of Information Release Dates

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

# Allocation Data

- Updated annually on December 1
- Direct distribution to covered entities for industrial assistance
  - Link: [http://www.arb.ca.gov/cc/capandtrade/allowanceallocation/sector\\_based\\_industrial\\_allocation.pdf](http://www.arb.ca.gov/cc/capandtrade/allowanceallocation/sector_based_industrial_allocation.pdf)
  - Will include entity CITSS ID numbers
- Direct distribution to electrical distribution utilities on behalf of ratepayers
  - Link: [http://www.arb.ca.gov/cc/capandtrade/ct\\_rf\\_april2013.pdf](http://www.arb.ca.gov/cc/capandtrade/ct_rf_april2013.pdf)

# 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 periods(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

| <u>CITTS Acct Number</u> | <u>Entity Name</u>  |
|--------------------------|---------------------|
| CA1385                   | Cheesy Garlic Bread |
| CA1386                   | Chicken & Waffle    |
| CA1387                   | Sriracha            |
| CA1388                   | Dill Pickle         |
| CA1389                   | Root Beer           |
| CA1390                   | Banana Split        |
| CA1391                   | Chili & Chocolate   |
| CA1392                   | Orange Zest         |

# 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

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

# 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

| ARB Project Identification # | Offset Project Name | Listing Entity | Type of Project         | Offset Project Location | Project Documentation   | EAOP Project ID# | Early Action Listing Information |
|------------------------------|---------------------|----------------|-------------------------|-------------------------|-------------------------|------------------|----------------------------------|
| CAODXXXX                     | Project A           | Operator 1     | Digester, forestry, etc | Location A              | Name of EAOP (i.e. ACR) | ACRXXX           | PDF                              |
|                              | Project B           | Holder 1       |                         | Location 2              | Name of EAOP (i.e. CAR) | CARXXX           | PDF                              |

Example: Project Level Data

| ARB Project ID # by Reporting Period | Reporting Period Dates | Vintage Year | ARB Offset Credits Issued Total number/vintage yr | Date of Issuance | Invalidation Status |
|--------------------------------------|------------------------|--------------|---|------------------|---------------------|
| CAODXXXX-A                           | 1/1/2011 – 12/31/2011  | 2010         | 20,000  | Nov 24, 2013     | 8 years             |
| CAODXXXX-B                           | 1/1/2011 – 12/31/2011  | 2011         | 30,000  | Dec 1 2013       | 3 years             |

# 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](http://www.arb.ca.gov/listserv/listserv_ind.php?listname=capandtrade)

# Contacts

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# Questions