

PROPOSED CHANGES TO THE MANDATORY REPORTING & GREENHOUSE GAS CAP-AND-TRADE REGULATIONS

JULY 15, 2011
CALIFORNIA AIR RESOURCES BOARD

Agenda

- Mandatory Reporting Regulation
 - Discussion
- Cap-and-Trade Regulation
 - Discussion
 - Market Operations, Oversight and Timing
 - Allowance Allocation
 - Electricity Sector
 - Offsets and Protocols
 - Other Topics

Purpose of This Workshop

- Provide opportunity for stakeholder questions and discussion prior to release of formal “15-day” regulatory language
 - Comments received during this workshop are not included in the formal rulemaking records
- Brief overview of major changes
- Majority of time for questions, clarification, and discussion

Workshop Presentation

- Workshop presentation can be downloaded at <http://www.arb.ca.gov/cc/capandtrade/meetings/meetings.htm>
- During this workshop, please send your questions or comments to: ccworkshops@arb.ca.gov

Mandatory Reporting Regulation

Overview of Proposed Changes

- General Provisions
- Verification
- Industrial Facilities
 - Electricity Generation and Cogeneration Units
 - Oil and Gas Systems
 - Other Facilities
- Electric Power Entities
- Fuel Suppliers

Mandatory Reporting Regulation

- Proposed regulation considered by the Board in December 2010
 - <http://www.arb.ca.gov/regact/2010/ghg2010/ghg2010.htm>
- Discussion Draft reflects staff's proposed language to implement Board direction
 - <http://www.arb.ca.gov/cc/reporting/ghg-rep/ghg-rep.htm>
- “15-day” language changes scheduled for release later this month

General Provisions

Applicability, Definitions, Schedule

- Incorporated updated U.S. EPA greenhouse gas reporting requirements
- Excluded reporting of fugitive emissions from farms, livestock operations, and landfills
- Modified and added definitions to improve clarity and maintain consistency
- Set verification deadline to September 1 for all reporters

General Provisions

Reporting and Documentation

- Modified abbreviated reporting for <25,000 MT CO₂e facilities
- Added reporting of electricity and thermal energy sales
- Reduced records retention from 10 to 7 years
- Added documentation requirements for power entities

General Provisions

Biomass and Measurements

- Biomass-derived fuels
 - Require supplier and fuel type for solid fuels
 - Clarified language for “Other Biomass CO₂”
- Included specific measurement accuracy requirements
- Removed weekly fuel monitoring requirement, but still needed for certain missing data options

General Provisions

Confidentiality and Enforcement

- Clarified data publicly released by U.S. EPA is considered public by ARB
- Clarified scope of enforcement provisions
- Added enforcement language to reference factors ARB must consider in determining any penalties

General Provisions

Missing Data Procedures

- Modified ARB missing data requirements to begin in 2013. Use U.S. EPA procedures in 2012
- Added eligibility criteria for fuel consumption missing data procedures
- Clarified that operators may select among several data monitoring options to prevent triggering missing data requirements

Verification

General

- Provided flexibility on when full verification is required
- Clarified the process for the submitting the COI and NOVS form
- Modified sampling plan and missing data requirements
- Clarified the definition of material misstatement
- Clarified methodologies for assigning an emissions level

Verification

Product Data

- Added product data verification to support the cap and trade program.
- Verification requirements
 - Sampling plan
 - Data checks
 - Material misstatement
 - Separate verification statement

Verification

Petition Process

- Verification body would now also notify ARB ten working days prior to an adverse verification statement.
- The reporter may file a petition with the Executive Officer (EO) prior to the verification deadline, but must include all information for EO decision.
- EO request for additional information must be met within 5 days.
- EO decision by October 10th

Verification

Biomass-Derived Fuels

- Added language to reflect the distinction between biogas and biomethane
- Added requirement to verify that a biomass-derived fuel used by a reporting entity is consistent with the Cap and Trade regulation

Verification

Other Changes

- Clarified the conflict of interest provisions for air districts
- Added criteria for becoming an offset project specific verifier

Stationary Combustion

- Specify that CEMS reporters do not have to perform fuel sampling, but must report fuel usage
- Include pilot light emissions
- Require weighted fuel use method when determining annual carbon content
- Allow isotopic carbon content analysis to be used for fuel as well as exhaust samples
- Clarify requirements for biomass and municipal solid waste estimates

Electricity Generation and Cogeneration Units

- Require additional data to enable energy balance accounting, other analyses
- Require one-time submission of an energy flow and metering diagram for cogen units
- Clarified requirements for:
 - Weighted average HHV/carbon content
 - Part 75 sources to follow Subpart D
 - Fuel consumption for bottoming cycle cogen units
- Reduced requirements for some facilities

Oil and Gas Systems

- Incorporated much of U.S. EPA Subpart W
- Retained separate requirements for some production and processing source types
 - Pneumatics, storage tanks, produced water, wellpad compressors ≥ 250 hp
- Included changes to correct errors, provide clarification and improve data quality.

Other Industrial Sectors

- Allow emission factors in lieu of measurement for coke vessel venting
- Provide for calculations by hydrogen plant operators that avoid double-counting
- Include updates to “product data” to support allowance allocation
- Add minor clarifying revisions for industrial facilities and suppliers

Electric Power Entities

- Revised default emission factor (0.428), applies now to all unspecified imports
- Specified new equation to clarify compliance obligation calculation
- Defined new terms to specify delivery tracking, treatment of VRR, simultaneous exchanges
- Provided specific options to support claims to specified imports
- Allowed retail providers who report only retail sales to opt out of verification.

Fuel Suppliers

Transportation Fuels

- Specified that biomass-derived fuel producers and enterers no longer required to report
- Clarified that reporting is limited to blendstocks, distillate fuel oils, biomass based fuels
- Require that enterers who deliver to terminals report recipient to help track double counting
- Require ethanol reporting without regard to the denaturant

Fuel Suppliers

Natural Gas and LPG

- Require calculations on MMBtu basis
- Specify that system deliveries are accounted for by the LDC
- Allow use of specified emission factors for non-pipeline quality natural gas not exceeding 3 percent of total emissions

Contact Us

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Questions and Discussion

Mandatory Reporting Regulation

- General Provisions
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- Industrial Facilities
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Cap-and-Trade Regulation

- Proposed regulation considered by the Board in December 2010
 - <http://www.arb.ca.gov/regact/2010/capandtrade10/capandtrade10.htm>
- Discussion draft reflects staff's proposed language to implement Board direction
 - <http://www.arb.ca.gov/cc/capandtrade/capandtrade.htm>
- “15-day” language changes scheduled for release later this month

Cap-and-Trade Program Timeline

- Initiate program in 2012
- Allocation, auction, trading, and other activities begin in 2012 before the start of the compliance obligation and the first compliance period
- Begin compliance obligation and first compliance period in 2013

Activities in 2012

- Tracking system
- Monitoring program
- Auction and financial services
- Explore possible new offset protocols
- Coordinate possible linkage with WCI partners when WCI partners' programs are available

2012 Auctions

- Planned for August and November
- Will include vintage 2013 and 2015 allowances
- One-sixth of allowances allocated to the IOU Limited Use Holding Accounts must be consigned to each auction
- Consignment and forward sale is entire auction supply for 2012

Compliance Periods

- First: 2013, 2014
- Second: 2015, 2016, 2017
- Third: 2018, 2019, 2020
- Annual and triennial surrenders are on Nov 1
- No annual surrender in 2015, 2018, 2021, etc.

Compliance Obligations

- Cap stringency unchanged
- Excess emissions due within 3 days after the next auction or reserve sale, whichever comes last
- Under-reporting discovered after surrender:
 - One-to-one make up with a 6-month grace period
- Penalty Structure
 - Additional penalties for fraud or deception

Market Operations and Timing

Major Changes

- Clarified calculation of limited exemption to holding limit
- Increased share of each future vintage allocated to advance auction from 2% to 10%
 - Purchase limit: 25% of forward auction

Allowance Allocation Topics

- Electricity Sector Allocation
- Industrial Sector Allocation
 - Product benchmarks included in discussion draft

Allowance Allocation

Major Changes

- Specifies allocation by utility for each year
- Includes benchmarks for 28 products used as basis for industrial free allocation
 - Considering 90% of sector average or “best in industry” if no CA firm has an emissions intensity \leq 90% of average
- “True-up” allocation for actual production
- Seeking comment on confidentiality of firm-level allocation

Electricity Sector Topics

- Electricity sector compliance obligation
- Voluntary renewable set-aside program

Electricity Sector Major Changes

- Added definition and prohibition of resource shuffling
- Described criteria for using facility-specific emission factors
- Defined direct delivery requirements for specified sources of electricity
- Recognized practice of “firming and shaping” variable renewables
- Allowed netting of “qualified exports” against imports’ compliance obligation
- Added voluntary renewable set-aside program

Offsets and Protocols

Major Changes to Offsets

- Reporting and verification cycle
- Record retention requirements
- Conflict of interest
- Forestry offset reversals
- Offset invalidation
 - Time limit and due process provision added
- Early action offset credits recognition and project transition

Offsets and Protocols

Major Changes to Protocols

- For all protocols:
 - Minor changes to ensure consistency between the regulation and protocols
 - Added provisions regarding the development of offset projects on tribal lands
- ODS – added CFC 113, other technical modifications
- Forestry – verification related changes

Other Topics

Adaptive Management

- Focused on potential localized air quality impacts
- Evaluate information from several programs and sources: MRR, Audit Reg, local permitting, monitors
- Review for disproportionate impacts to low-income communities or increases in criteria or toxics as result of cap-and-trade
- Public process for implementation and information sharing
- Will take action in consultation with stakeholders if unanticipated emissions impacts are discovered
- Seeking public input on metrics, triggers, and actions

Other Topics

Energy Audit and Co-Benefits

- Regulation requires largest sources to audit and document energy consumption and emissions, identifies potential energy efficiency and emission reduction opportunities
- Reports due December 2011
- Evaluating how to require identified low cost on-site reductions
- Seeking public input on criteria and thresholds that would require action, and mechanism

Next Steps

- 1st 15-day language package (end of July)
- Board update on AB 32 progress (Aug 24)
- Potential 2nd 15-day language (end of Aug)
- Board hearing on the updated Cap-and-Trade (Oct 21)
- Final Statement of Reasons due to OAL (Oct 28)

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