

## OVERVIEW OF

# California's Cap-and-Trade Rulemaking Process and the Western Climate Initiative

## California Cap-and-Trade Program

The AB 32 Scoping Plan directs staff to implement a broad based cap-and-trade program. Once implemented, the cap-and-trade program will provide fixed limits on greenhouse gas emissions from key sectors of the economy that represent about 85 percent of the state's total greenhouse gas (GHG) emissions. ARB will require the annual fixed limit of GHG emissions to decline steadily to meet the targets in 2020 and beyond. California would also link its program with the cap-and-trade programs adopted by other states and Canadian provinces in the Western Climate Initiative (WCI).

## Program Scope

Beginning in 2012, the proposed California cap-and-trade program would include electricity generation, including imports, and large industrial sources. This would involve between 800 and 1000 in-state facilities. In 2015, the program would expand to include transportation fuels and non-industrial users of natural gas (commercial and residential customers). ARB anticipates that transportation fuels and non-industrial users of natural gas would be regulated as far upstream as possible (e.g., refineries or major pipeline distribution centers) to make the program administratively manageable.

## Compliance Periods

Each compliance period would cover a 3 year period (i.e., 2012-2014; 2015-2017; 2018-2020). This means that a covered source would have up to 3 years to reconcile its GHG emissions with the number of allowances held. As a check on what is actually emitted over each compliance period, ARB would require capped sources to report their emissions at least annually.

## Allowance Distribution

The Scoping Plan calls for a minimum of 10 percent auction in the beginning year of the program, but anticipates a transition as quickly as practicable to full auction.

## Offsets

Offsets are surplus greenhouse gas emission reductions from sectors outside the cap that can be used by capped sources along with allowances to meet their compliance obligations. The Scoping Plan directs that the use of offsets be limited to no more than 49% of the required emissions reductions. This policy was established to ensure that a majority of emission reductions came from sources included in the program, but significant technical work and policy decisions are still needed to translate that policy direction into specific rules on how many offsets particular sources will be able to use. ARB staff will examine the different possible options during rule development to ensure AB 32 requirements are fully met.

## Complementary Measures

Covered sources under the cap are also subject to other measures, standards, and policies. These measures will complement the cap-and-trade program by reducing market barriers, spurring innovation, and distributing costs more equitably. The cap-and-trade program will deliver approximately 35 mmtCO<sub>2</sub>e of reductions beyond those anticipated to come from the complementary measures.



## **AB 32 Mandates and Principles for Market Mechanisms**

The principles in AB 32 for market mechanisms will guide ARB's development of the cap-and-trade program:

- Seek to minimize costs and maximize total benefits,
- Minimize emissions leakage and job losses as well as administrative burdens from program implementation;
- Complement existing air programs to reduce emissions, exposure, and risk, while considering the potential for direct, indirect, and cumulative emissions, including localized impacts.
- Avoid disproportionately impacting low-income communities.
- The Board provided additional direction for ARB staff to follow as it develops a cap-and-trade regulation:
- The program must complement health-based air quality programs and the ARB Environmental Justice policies.
- Program development must be informed by expert input on evaluating and addressing potential issues relating to public health, allowance distribution, revenue distribution, and effects on the economy.
- Staff is to conduct analyses of the program's impact on the California economy and public health.

## **Western Climate Initiative**

The Board directed staff to develop a California cap-and-trade program that will link with programs developed through the Western Climate Initiative (WCI), a regional collaboration of Western states and Canadian provinces with the mutual goal of reducing their GHG emissions.

WCI states include California, Washington, Oregon, Utah, Montana, New Mexico, and Arizona. The Canadian partner provinces are British Columbia, Manitoba, Ontario, and Quebec. WCI was created to identify, evaluate, and implement collective and cooperative ways to reduce greenhouse gases in the region, focusing on a market-based cap-and-trade system.

## **For More Information**

Visit the California Air Resources Board's Cap-and-Trade website at:  
[www.arb.ca.gov/cc/capandtrade/capandtrade.htm](http://www.arb.ca.gov/cc/capandtrade/capandtrade.htm)

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