AN OVERVIEW OF

ARB Emissions Trading Program Overview

Major program elements:

Scope

- Starting in 2012: electricity, including imports, and large industrial facilities
- Starting in 2015: distributors of transportation fuels, natural gas and other fuels
- Program covers approximately 350 businesses, representing 600 facilities

The Cap

- Initial cap in 2012 set at emissions forecast for that year
- When scope expands in 2015, cap increases to include emissions from combustion of fuels
- Cap declines approximately 2 percent per year in initial period (2012-14); cap declines after 2015, approximately 3 percent per year
- Cumulative reductions needed 2012-2020 are 273 million metric tons of CO_2 ($MMTCO_2e$)
- 2020 cap about 15 percent below 2012 levels

Equitable Allowance Distribution

- Industrial sources will start with free allocation
  - Allowances for each sector will be close to the average emissions computed from recent data, at about 90 percent, based on an efficiency benchmark for each industry
  - Distribution will be updated annually for those sectors with an efficiency benchmark based on product output
- Electricity sector to start with set share in 2012 close to the average emissions computed from recent data, about 90 percent
  - Free distribution to utilities, with value of allowances to the benefit of ratepayers
  - Portion of all allowances, averaging about 4 percent, go into a strategic reserve for cost containment
- Remainder of allowances will be auctioned
- Allowances added to system for fuels starting in 2015

Cost Containment Mechanisms and Market Flexibility Mechanisms

- Trading allowances
- Banking of allowances
- Allowance reserve provides allowances at fixed prices to those with compliance obligations
- Three-year compliance periods will allow for annual variations in output
- Offsets
- Allow the use of offsets for up to 8 percent of a facility’s compliance obligation, in part to balance setting aside 4 percent of allowances for strategic reserve

Offsets

- Four initial offset protocols included as part of the program: forestry; urban forestry; livestock (manure/methane) management; and, removing existing stock of ozone-depleting substances
- Validity of offsets supported by independent verification
- Includes provision to approve external offset registries (such as the Climate Action Reserve) to issue offset credits if they use ARB-approved protocols and follow regulatory requirements

- Includes framework for future inclusion of international offset programs from an entire sector within a region
  - This ‘sectoral’ approach could be used in future to help preserve international forests

Compliance and Enforcement

- Covered facilities will surrender allowances/offsets for 30 percent of the previous year’s emissions on an annual basis.
- Once every three years, covered facilities will surrender allowances/offsets covering the remainder of the emissions for that three-year compliance period (2012-14; 2015-17; 2018-2020)
- If deadline is missed, obligation becomes four allowances for every ton of emissions

Linkage to Other Greenhouse Gas Emissions Trading Systems

- Regulation includes framework for linking to programs of WCI partners
- Staff to provide recommendation to Board in 2011 on linking with programs in New Mexico, British Columbia, Ontario and Quebec

Mandatory Reporting Regulation Revisions

- Separate regulatory package revising California’s existing mandatory greenhouse gas reporting rules to make them consistent with U.S. EPA rules and to support the cap-and-trade program, including simplified reporting requirements for smaller sources

Next Steps:

- **January through summer, 2011:** Staff completes package of changes based on Board direction, and makes proposed changes available for public comment.
- **July, 2011:** Staff reports to the Board on the status of finalizing the cap-and-trade regulation and implementing the cap-and-trade program.
- **January 1, 2012:** Cap-and-trade program start date.

For More Information

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