

## DRAFT

### CREDIT TRADING OUTLINE

The purpose of this outline is to inform panelists of staff's initial findings and analysis related to the credit trading under the LCFS. A key element of the program is the provision to generate, bank, and sell credits. The provision establishes a market for LCFS credits thus requiring the need to track the accrual of credits, as well as their retirement or sale under the program. However, tracking these transactions requires the establishment or expansion of tools that the ARB is developing. It will also require that certain provisions in the regulation be further clarified. The purpose of this outline is to provide background on the existing LCFS regulatory requirements with respect to credit trading, consider other credit trading programs including any lessons learned, and identify key themes that ought be considered with respect to the LCFS credit trading system. The Panel's perspectives on what makes a robust credit trading system will help to inform recommendations that the ARB develops.

Staff proposes to use this and similar outlines to develop the white papers/chapters of the review report due to the Board in December 2011. Please review this outline and identify where data are insufficient and what data are necessary to meet the requirements of the regulation review. This outline is meant to be a high-level overview of the topic; more detail will follow in subsequent white papers/chapters.

- I. Introduction
  - A. This topic added in response to panelist comments regarding the importance of the development of the credit market.
  - B. Focuses on both near- and long-term solutions to building a functioning credit market
  - C. Background on regulatory requirements
  - D. Background on other credit trading programs (lessons learned)
  - E. Summary of any Panel findings
- II. Key Considerations for Trading
  - A. Objective
    - 1. Develop a viable credit trading system
    - 2. Ensure the ability to monitor and evaluate the health of the market
  - B. Role of Market
  - C. Role of ARB
  - D. Transparency
    - 1. Information needed for the credit market to function
    - 2. Information to be made available to the public
    - 3. Information that will remain confidential
  - E. Monitoring
    - 1. Ensuring credit trading is a competitive exchange
    - 2. Protection from fraudulent use of the system
  - F. Ensure longevity and robustness in the credit trading market

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### III. Summary of Potential Regulatory Options

#### A. LCFS Credit Banking and Trading

1. Proposed new a new section to the LCFS regulation
2. Provides regulatory provisions on how credits are banked and traded within the LCFS program
3. Also provides information on how credit balances are calculated and banked for each reporting quarter
4. Will give direction on reporting requirements for trades and the process of reporting to ARB
5. Will contain concepts including credit carry-back and credit retirement hierarchy
6. Key concepts include: transferrable credits, credit trading, credit retirement, and public disclosure of information.

### IV. Conclusions