

**GHG CAP-AND-TRADE RULE
PROPOSED RESOLUTION TEXT**

1. Natural Gas Allowance Allocation: (Red-lined to December 2010 Resolution)

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to initiate a public process by March 2012 for determining whether allowances should be allocated directly to natural gas utilities on behalf of their customers and, if so, to recommend to the Board what method should be used for that allocation to be implemented prior to the initial allocation of allowances for the second compliance period starting in 2015.

- Natural Gas has to go thru PUC

2. Offset Supply and Monitoring Development of Offset Market (Red-lined to December 2010 Resolution)

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to ~~initiate a public process for the review of additional compliance offset protocols and no later than February 2011, for the purpose of bringing additional protocols to the Board for approval no later than March 2012.~~ consideration as soon as is practical

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to update the Board annually on the status of the cap-and-trade program, including:

- Information on the operation of the California program and any linked programs;
- Actions being taken by covered entities to comply with the program;
- Information on shifts in business activity that may result in emissions leakage and changes in market share for covered entities and sectors;
- Shifts in fuel use in different sectors, including information on the use of electricity in the transportation sector, and the use of biofuels and biomass;
- Effects on small business and on low-income households;
- ~~Any sales of allowances from the allowance reserve~~ The quantity and price of allowances purchased from the Allowance Price Containment Reserve;
- The status of the ARB offset program including but not limited to the 1) quantity supply of offset credits issued by registered in ARB's tracking system, approved third-party registries or the tracking system registries of linked programs and the quantity of offsets reversed by ARB. 2) identifiable barrier challenges to the development of offset credits from approved ARB protocols. 3) the expected offset supply from projects listed on these systems; including the geographic locations of listed offset projects; and 4) the localized air quality impacts and forest impacts of the emissions reductions from offsets projects participating in this program
- Any changes to linked cap-and-trade programs.

3. Market Monitor

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to contract with an independent entity with ~~appropriate~~ sufficient market experience (the "Market

**GHG CAP-AND TRADE RULE
PROPOSED RESOLUTION TEXT**

Monitor) that will monitor and provide public reports on the operation of the market, including auctions and reserve sales, on a quarterly basis and recommend appropriate action, which could include taking corrective action prior to the next auction, adding future allowances to the allowance reserve or future auctions, increasing the overall supply of offsets and use of offsets as compliance instruments, or temporarily suspending trading in the market. In its review of each auction, the monitor shall, within seven days following each auction, also review associated calculations for such auction, participant and group behavior, and assess other potentially manipulative or fraudulent behavior and certify the results of each auction prior to the auction transactions.

4. Allowance Price Containment Reserve

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to evaluate the operation of the market if one-third or more of the all-allowances are sold from ~~any tier of the~~ allowance reserve, to report to the Board on the reasons the reserve is being depleted, and to make recommendations prior to any subsequent auction ~~within six months~~ for any corrective action that is required to ensure that the cap-and-trade program's cost containment mechanisms remain robust.

5. Market Simulations/Market Readiness

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to report to the Board no later than ~~March 31~~ July 31, 2014, on the progress being made ~~on implementing~~ toward completion of the following essential elements of the cap-and-trade program prior to the first auction including: ~~information on the status of the following:~~

- Release of a cap-and-trade implementation plan, including a detailed master timetable, enumeration of tasks for completion prior to the full launch of the market and the start of compliance obligations and a stakeholder engagement plan.
- Implementation of a market tracking system, and a schedule for initial deployment of the system and making training available for covered entities and others that will need to register in the system and use it for participating in the program
- Implementation of an auction system
- Implementation of an offset ~~registry~~ tracking system, and information on any entities that have indicated an interest in applying to become third-party ~~registries~~ offset registries under the cap-and-trade regulation
- Work with other agencies and other interested parties on market oversight, including any market simulation efforts
- Efforts to solicit expert advice on the design of the market to ensure that it is protected and ensure the ongoing proper operation of the market.

BE IT FURTHER RESOLVED, that the Board directs the Executive Officer to contract with an external entity to develop and complete simulation exercises for the market, and to work closely with regulated entities and other stakeholders such that the simulations evaluate potential market conditions, trading dynamics, adequacy of the reserve and other key design features of the program. The Board directs the Executive Officer to complete

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PROPOSED RESOLUTION TEXT**

these market simulations with sufficient time to take corrective actions, if any, necessary to address potential market design or other issues prior to the first auction.

6. Market Surveillance Committee

BE IT FURTHER RESOLVED, that the Board directs the Executive Officer to appoint a committee of external market experts (a "Market Surveillance Committee") to provide an ongoing, independent assessment of the functioning of the market and any recommendations for modifications to the design and operation of the program and/or amendments to the regulation. This committee shall be made up of no fewer than five members, with one of its members nominated by the California Independent System Operator, and at least three of the members having significant and direct commercial experience with commodities or emissions credit trading. This committee is directed to provide a report and recommendations to the Board on a semi-annual basis, or whenever it deems modifications or adjustments to the program are needed.

