

**APPENDIX Q.**  
**COMPLIANCE CYCLE AND PROGRAM ACTIVITIES**

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## **Appendix Q**

### **Compliance Cycle and Program Activities**

#### **A. Introduction**

This appendix considers activities identified and required in the proposed regulation chronologically. Schedules for major activities proposed in this regulation are identified, including: reporting and verification; determination of inclusion of covered entities; registration deadlines; allocation, auction, and sale of allowances; and surrender of compliance instruments. Dates and deadlines for most major cap-and-trade regulation activities for the period 2011 through 2015 are outlined in Table Q-1: Cap-and-Trade Program Compliance Cycle Activities.

#### **B. Reporting and Verification**

Covered entities and opt-in covered entities whose greenhouse gas (GHG) emissions equal or exceed 10,000 metric tons of carbon dioxide equivalent (MTCO<sub>2</sub>e) will be required to report their annual emissions by April 1 of the following year. Those entities with emissions exceeding 25,000 MTCO<sub>2</sub>e will be required to verify their emissions by September 1 of the reporting year. Electricity marketers whose GHG emissions equal or exceed 10,000 MTCO<sub>2</sub>e, as well as electricity marketers with unspecified emissions of any amount, will be required to report their annual emissions by June 1, and those with emissions exceeding 25,000 MTCO<sub>2</sub>e will be required to verify their emissions by October 1 of the reporting year.

Electricity distribution utilities are required to report to the Executive Officer no later than June 30 of each year, describing the use of allowance value for any allowances received in the prior calendar year.

Offset project operators are required to submit all Offset Project Data Reports for the previous year's reported data to ARB or an Offset Project Registry<sup>1</sup> by April 1. Offset Verification Statements for those Offset Project Data Reports must be submitted to ARB or an Offset Project Registry by October 1 of the same year.

#### **C. Determination of Inclusion of Covered Entities**

The determination of inclusion for an entity in the first compliance period is based on its annual emissions from 2008 through 2010. If, in any data year between 2008 and 2010, this entity's associated GHG emissions equal or exceed 25,000 MTCO<sub>2</sub>e, then this entity is identified as a covered entity as of January 1, 2012. An entity that exceeds the threshold for the first time starting after the

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<sup>1</sup> An *Offset Project Registry* is an entity approved by ARB that lists offset projects, collects Offset Project Data Reports, and facilitates verification of Offset Project Data Reports for offset projects being implemented using a Compliance Offset Protocol.

2010 data year will be considered a covered entity starting the year it exceeds the 25,000 MTCO<sub>2</sub>e threshold. Such an entity is called a *new entrant*.

The determination of inclusion for an entity in a sector added to the program in the second compliance period is based on its annual emissions in 2010–2013. If, during any data year between 2010 and 2013, the entity's associated emissions equal or exceed 25,000 MTCO<sub>2</sub>e, then the entity is identified as a covered entity as of January 1, 2015. An entity that exceeds the threshold for the first time starting after the 2013 data year will be considered a covered entity starting the year it exceeds the 25,000 MTCO<sub>2</sub>e threshold. Such an entity is called a *new entrant*.

#### **D. Registration**

The registration deadline for covered entities whose annual reporting emissions in 2008 through 2010 equal or exceed 25,000 MTCO<sub>2</sub>e is 30 calendar days after this rule takes effect. Otherwise, the registration deadline for covered entities is 45 calendar days after an entity's reporting deadline. Opt-in covered entities' registration deadline for the first compliance period is 30 calendar days after this rule takes effect, and November 30 of the year prior to a compliance period for the second and third compliance periods.

Other entities do not have a mandatory registration deadline. However, an entity must register with the accounts administrator prior to participation in this program.

#### **E. Allowance Allocation, Auction, and Sale**

Allowances from each budget year will be allocated pursuant to the following applications:

##### **1. Allowance Price Containment Reserve**

The Executive Officer will conduct a one-time transfer on December 15, 2011, equal to 1 percent of allowances from budget years 2012–2014, 4 percent of allowances from budget years 2015–2017, and 7 percent of allowances from budget years 2018–2020 into the Allowance Price Containment Reserve for future quarterly sales. Allowances allocated to the Allowance Price Containment Reserve will be provided for sale on a quarterly basis, providing there are allowances remaining in this Reserve.

The first reserve sale will occur on March 4, 2012, and subsequent sales will be conducted three weeks after each quarterly allowance auction. Notice of the number of allowances available for sale and the terms of the sale will be released at least four weeks prior to the sale. Covered entities wishing to participate in the sale must submit bids and bid guarantees at least two weeks before the sale.

## **2. Advance Auction**

The Executive Officer will conduct a one-time transfer on December 15, 2011, equal to 2 percent of allowances from budget years 2015 through 2020 for the purpose of advance auctioning. Allowances dedicated to this purpose will be auctioned three years prior to their vintage years. Since auctions are conducted quarterly, only 0.5 percent of allowances from corresponding vintage years will be provided for sale at each auction. For example, 2 percent of allowances from vintage year 2016 will be provided for auction in 2013. For each auction conducted in 2013, only 0.5 percent of allowances from vintage year 2016 will be provided for sale.

## **3. Allowance Allocation**

Allowances will be deposited into electrical distribution utilities' accounts on January 15 of the calendar year that corresponds to each vintage year (e.g. allowances from the 2012 budget will be allocated on January 15, 2012). At least 90 days prior to receiving a direct allocation of allowances, publicly owned electric utilities (POU) must inform the Executive Officer of the share of their allowances that should be placed in the POU's compliance and limited use holding accounts.

Industrial covered entities and opt-in covered entities identified within the industrial classifications listed in Table 8-1 of the proposed regulation will be eligible to receive free allowances.

For each year, the product output-based allocations will be updated based on the available third-party verifiable data from the years two to four years prior to the vintage year. Product output datasets will be collected by both ARB and the U.S. Environmental Protection Agency (U.S. EPA).

During the initial years of the program, some facilities may not be able to supply verifiable output data records for a full three-year period. In these cases staff may need to rely on a more limited sample size. For example, in vintage year 2012 staff may have to rely primarily on the product output data reported for the 2010 data year from the U.S. EPA dataset. For vintage year 2013, allocation could be based on an eligible entity's 2010 output data reported to the U.S. EPA and 2011 data submitted to ARB. For vintage year 2014, allocation could be based on an eligible entity's 2010 reporting data to U.S. EPA and 2011–2012 data submitted to ARB. For all future vintage years (2015–2020) a full dataset will exist to allow allocation to be based on verified output data from the years two to four years prior to the vintage year. For example, vintage year 2015 allowances will be distributed based on product output data from the 2011–2013 data years.

In determining the allocation levels to the industrial entities covered under the energy-use fallback approach, staff will employ all available third-party verifiable data reported to ARB or to the California Climate Action Registry for data years 2000–2010. Allocations granted under this approach decline over time due to cap

and assistance factor decline but are not updated based on annual changes in product output.

Allowances remaining after each annual free allocation will be auctioned. The amount remaining each year will be divided among the four quarterly auctions taking place in that calendar year.

#### **4. General Auction**

The general auction will take place quarterly following a 60-day public notice. The first auction will take place on February 14, 2014, and the following auctions will take place on the twelfth business day of each quarter. Allowances from different vintage years will be auctioned separately.

Entities consigning allowances for sale at a quarterly auction must do so at least 60 days prior to the auction. Entities wishing to participate in an auction must register at least 30 days before the auction and submit bid guarantees at least one week before the auction.

### **F. Surrender of Compliance Instruments**

#### **1. Annual Surrender Obligation**

Beginning in 2013, each entity and opt-in covered entity will have an annual surrender obligation. The deadline for annual surrender obligation is 45 days after each entity's reporting deadline. The amount of annual surrender obligation is equal to 30 percent of its reporting emissions for the previous data year. The annual surrender obligation is subject to the offset credits quantitative usage limit, as identified in section 95854.

#### **2. Triennial Surrender Obligation**

Covered entities have a triennial surrender obligation in the year following completion of a compliance period. An exception to this rule is provided to entities that become covered entities in the third year of a compliance period; their obligation for that year is rolled into the following compliance period. For example, if an entity is identified as a covered entity in 2015 based on its reported 2014 data, this entity does not have a triennial obligation in 2015; instead, this entity's first triennial obligation will have to be fulfilled in 2018, covering emissions data for years 2014–2017.

The deadline for triennial surrender is November 1 of the calendar year following the third year of the compliance period.

The total number of allowances and offset credits submitted to fulfill the combined annual and triennial surrender obligations is subject to the quantitative usage limit on offset credits.



### **3. Offset Credits Quantitative Usage Limit**

For each compliance obligation, the offset credits quantitative usage limit is up to 8 percent of a covered entity or opt-in covered entity's compliance obligation. In the first and second compliance periods, sector-based offset credits may not exceed 25 percent of that usage limit. In the third compliance period, sector-based offset credits may not exceed 50 percent of that usage limit.

**Table Q-1: Cap-and-Trade Program Compliance Cycle Activities**

The registration deadline for both covered and opt-in covered entities for first compliance period is thirty days after the effective date of the regulation (i.e., 1/1/2012 at the latest). The inclusion determination occurs January 1 of each compliance period.

Year	Month	Reporting and Verification <sup>1</sup>	Registration	Allocation	Auction	Sale of Reserve Allowances	Surrender
2011	April	4/1: MRR reporting deadline for most entities	-	-	-	-	-
	May	-	-	-	-	-	-
	June	6/1: MRR reporting deadline for electricity marketers	-	-	-	-	-
	July–August	-	-	-	-	-	-
	September	9/1: MRR verification deadline for most entities	-	-	-	-	-
	October	10/1: MRR verification deadline for electricity marketers	-	10/3: POUs must inform ARB of the share of their allowances that should be placed in compliance vs. holding accounts	-	-	-
	November	-	-	-	-	-	-

Table Q-1: (continued)

Year	Month	Reporting and Verification <sup>1</sup>	Registration	Allocation	Auction	Sale of Reserve Allowances	Surrender
2011	December	-	-	12/15: Allocation of allowances to Allowance Price Containment Reserve 12/15: Allocation of allowances to Auction Holding Account for the advance auction	By 12/16: Notice of 1st auction of the following year 12/16: Deadline for allowances to be consigned to auction for 1st auction of the following year	-	-
2012	January	-	-	1/15: Allocation to utilities and industry for current year	1/15: Registration deadline for 1st auction of the year	-	-

Table Q-1: (continued)

Year	Month	Reporting and Verification <sup>1</sup>	Registration	Allocation	Auction	Sale of Reserve Allowances	Surrender
2012	February	-	-	-	2/7: Bid guarantee deadline for 1st auction of the year 2/14: 1st auction of the year By 2/17: Notice of 2nd auction of the year 2/17: Deadline for allowances to be consigned to auction for 2nd auction of the year	By 2/5: Notice of 1st sale of the year 2/19: Bid and bid guarantee deadline for 1st sale of the year	-
	March	-	-	-	3/18: Registration deadline for 2nd auction of the year	3/4: 1st sale of the year	-
	April	4/1: MRR reporting deadline for most entities 4/1: C&T deadline for Offset Project Data Reports	-	-	4/10: Bid guarantee deadline for 2nd auction of the year 4/17: 2nd auction of the year	By 4/10: Notice of 2nd sale of the year 4/24: Bid and bid guarantee deadline for 2nd sale of the year	-

Table Q-1: (continued)

Year	Month	Reporting and Verification <sup>1</sup>	Registration	Allocation	Auction	Sale of Reserve Allowances	Surrender
2012	May	-	5/16: Registration deadline for most new entrants	-	By 5/19: Notice of 3rd auction of the year 5/19: Deadline for allowances to be consigned to auction for 3rd auction of the year	5/8: 2nd sale of the year	5/16: Annual surrender deadline for most covered entities
	June	6/1: MRR reporting deadline for electricity marketers 6/30: C&T deadline for utilities to report on disposition of auction proceeds	-	-	6/18: Registration deadline for 3rd auction of the year	-	-
	July	-	7/16: Registration deadline for new electricity marketer entrants	-	7/11: Bid guarantee deadline for 3rd auction of the year 7/18: 3rd auction of the year	By 7/11: Notice of 3rd sale of the year 7/25: Bid and bid guarantee deadline for 3rd sale of the year	7/16: Annual surrender deadline for electricity marketers

Table Q-1: (continued)

Year	Month	Reporting and Verification <sup>1</sup>	Registration	Allocation	Auction	Sale of Reserve Allowances	Surrender
2012	August	-	-	-	By 8/17: Notice of 4th auction of the year 8/17: Deadline for allowances to be consigned to auction for 4th auction of the year	8/8: 3rd sale of the year	-
	September	9/1: MRR verification deadline for most entities	-	-	9/16: Registration deadline for 4th auction of the year	-	-
	October	10/1: MRR verification deadline for electricity marketers 10/1: Deadline for Offset Verification Statements	-	10/3: POUs must inform ARB of the share of their allowances that should be placed in compliance vs. holding accounts	10/9: Bid guarantee deadline for 4th auction of the year 10/16: 4th auction of the year	By 10/9: Notice of 4th sale of the year 10/23: Bid and bid guarantee deadline for 4th sale of the year	-

Table Q-1: (continued)

Year	Month	Reporting and Verification <sup>1</sup>	Registration	Allocation	Auction	Sale of Reserve Allowances	Surrender
2012	November	-	11/30: Registration deadline for opt-in covered entities for following year	-	By 11/18: Notice of 1st auction of the following year 11/18: Deadline for allowances to be consigned to auction for 1st auction of the following year	11/6: 4th sale of the year	-
	December	-	-	-	12/18: Registration deadline for 1st auction of the following year	-	-
2013 and 2014	January	-	-	1/15: Allocation to utilities and industry for current year	1/10: Bid guarantee deadline for 1st auction of the year 1/17: 1st auction of the year	By 1/10: Notice of 1st sale of the year 1/24: Bid and bid guarantee deadline for 1st sale of the year	-
	February	-	-	-	By 2/15: Notice of 2nd auction of the year 2/15: Deadline for allowances to be consigned to auction for 2nd auction of the year	2/7: 1st sale of the year	-

Table Q-1: (continued)

Year	Month	Reporting and Verification <sup>1</sup>	Registration	Allocation	Auction	Sale of Reserve Allowances	Surrender
2013 and 2014	March	-	-	-	3/17: Registration deadline for 2nd auction of the year	-	-
	April	4/1: MRR reporting deadline for most entities 4/1: C&T deadline for Offset Project Data Reports	-	-	4/9: Bid guarantee deadline for 2nd auction of the year 4/16: 2nd auction of the year	By 4/9: Notice of 2nd sale of the year 4/23: Bid and bid guarantee deadline for 2nd sale of the year	-
	May	-	5/16: Registration deadline for most new entrants	-	By 5/18: Notice of 3rd auction of the year 5/18: Deadline for allowances to be consigned to auction for 3rd auction of the year	5/7: 2nd sale of the year	5/16: Annual surrender deadline for most covered entities
	June	6/1: MRR reporting deadline for electricity marketers 6/30: C&T deadline for utilities to report on disposition of auction proceeds	-	-	6/17: Registration deadline for 3rd auction of the year	-	-



Table Q-1: (continued)

Year	Month	Reporting and Verification <sup>1</sup>	Registration	Allocation	Auction	Sale of Reserve Allowances	Surrender
2013 and 2014	July	-	7/16: Registration deadline for new electricity marketers	-	7/10: Bid guarantee deadline for 3rd auction of the year 7/17: 3rd auction of the year	By 7/10: Notice of 3rd sale of the year 7/24: Bid and bid guarantee deadline for 3rd sale of the year	7/16: Annual surrender deadline for electricity marketers
	August	-	-	-	By 8/17: Notice of 4th auction of the year 8/17: Deadline for allowances to be consigned to auction for 4th auction of the year	8/7: 3rd sale of the year	-
	September	9/1: MRR verification deadline for most entities	-	-	9/16: Registration deadline for 4th auction of the year	-	-
	October	10/1: MRR verification deadline for electricity marketers 10/1: Deadline for Offset Verification Statements	-	10/3: POUs must inform ARB of the share of their allowances that should be placed in compliance vs. holding accounts	10/9: Bid guarantee deadline for 4th auction of the year 10/16: 4th auction of the year	By 10/9: Notice of 4th sale of the year 10/23: Bid and bid guarantee deadline for 4th sale of the year	-

Table Q-1: (continued)

Year	Month	Reporting and Verification <sup>1</sup>	Registration	Allocation	Auction	Sale of Reserve Allowances	Surrender
2013 and 2014	November	-	11/30: Registration deadline for opt-in covered entities for following year	-	By 11/18/2013 or 11/21/2014: Notice of 1st auction of the following year 11/18/2013 or 11/21/2014: Deadline for allowances to be consigned to auction for 1st auction of the following year	11/6: 4th sale of the year	-
	December	-	-	-	12/18/2013 or 12/21/2014: Registration deadline for 1st auction of the following year	-	-
2015	January	-	-	1/15: Allocation to utilities and industry for current year	1/13: Bid guarantee deadline for 1st auction of the year 1/20: 1st auction of the year	By 1/13: Notice of 1st sale of the year 1/27: Bid and bid guarantee deadline for 1st sale of the year	-

Table Q-1: (continued)

Year	Month	Reporting and Verification <sup>1</sup>	Registration	Allocation	Auction	Sale of Reserve Allowances	Surrender
2015	February	-	-	-	By 2/15: Notice of 2nd auction of the year 2/15: Deadline for allowances to be consigned to auction for 2nd auction of the year	2/10: 1st sale of the year	-
	March	-	-	-	3/17: Registration deadline for 2nd auction of the year	-	-
	April	4/1: MRR reporting deadline for most entities 4/1: C&T deadline for Offset Project Data Reports	-	-	4/9: Bid guarantee deadline for 2nd auction of the year 4/16: 2nd auction of the year	By 4/9: Notice of 2nd sale of the year 4/23: Bid and bid guarantee deadline for 2nd sale of the year	-
	May	-	5/16: Registration deadline for most new entrants	-	By 5/18: Notice of 3rd auction of the year 5/18: Deadline for allowances to be consigned to auction for 3rd auction of the year	5/7: 2nd sale of the year	5/16: Annual surrender deadline for most covered entities

Table Q-1: (continued)

Year	Month	Reporting and Verification <sup>1</sup>	Registration	Allocation	Auction	Sale of Reserve Allowances	Surrender
2015	June	6/1: MRR reporting deadline for electricity marketers 6/30: C&T deadline for utilities to report on disposition of auction proceeds	-	-	6/17: Registration deadline for 3rd auction of the year	-	-
	July	-	7/16: Registration deadline for new electricity marketers	-	7/10: Bid guarantee deadline for 3rd auction of the year 7/17: 3rd auction of the year	By 7/10: Notice of 3rd sale of the year 7/24: Bid and bid guarantee deadline for 3rd sale of the year	7/16: Annual surrender deadline for electricity marketers
	August	-	-	-	By 8/17: Notice of 4th auction of the year 8/17: Deadline for allowances to be consigned to auction for 4th auction of the year	8/7: 3rd sale of the year	-
	September	9/1: MRR verification deadline for most entities	-	-	9/16: Registration deadline for 4th auction of the year	-	-

Table Q-1: (continued)

Year	Month	Reporting and Verification <sup>1</sup>	Registration	Allocation	Auction	Sale of Reserve Allowances	Surrender
2015	October	10/1: MRR verification deadline for electricity marketers 10/1: Deadline for Offset Verification Statements	-	10/3: POUs must inform ARB of the share of their allowances that should be placed in compliance vs. holding accounts	10/9: Bid guarantee deadline for 4th auction of the year 10/16: 4th auction of the year	By 10/9: Notice of 4th sale of the year 10/23: Bid and bid guarantee deadline for 4th sale of the year	-
	November	-	11/30: Registration deadline for opt-in covered entities for following year	-	By 11/21: Notice of 1st auction of the following year 11/21: Deadline for allowances to be consigned to auction for 1st auction of the following year	11/6: 4th sale of the year	11/1: Triennial surrender deadline
	December	-	-	-	12/21: Registration deadline for 1st auction of the following year	-	-

<sup>1</sup> Includes any reporting and verification required for both the Cap-and-Trade Regulation (C&T) and the Mandatory Reporting Regulation (MRR)