Special Topics Series: Cap-and-Trade in California

Webinar will begin shortly

For audio, please dial (773) 945-1011

Access code: 348-485-810
Today’s Webinar

• Introduction
  – Gary Gero
    President
    Climate Action Reserve

• Guest Speaker
  – Brieanne Aguila
    Air Pollution Specialist
    California Air Resources Board

• We will have Q&A at the end, please type your questions in at any time.
Cap-and-Trade In California

Brieanne Aguila
Webinar for Climate Action Reserve

January 27, 2011
California Air Resources Board
Cap-and-Trade Regulation Development

- Began in 2007 as part of the Scoping Plan process
- From 2008-2010 held 40 public meetings on program design
- Released Preliminary Draft Regulation in late 2009
- Board adopted resolution December 2010
  - Regulation to be finalized in 2011
Objectives of the Cap-and-Trade Program

• Reduce statewide GHG emissions
• Balance environmental stringency and compliance costs
• Establish framework for a low-carbon economy
• Complement other air quality and GHG programs
• Link with Western Climate Initiative (WCI)
Overview of Cap-and-Trade

• The “cap” limits GHG emissions, and uses allowances to control total emissions
  – One allowance equals one ton of GHGs
  – Total number of allowances equals the cap
• The cap declines each year
• Covered entities must reduce emissions or compete for a decreasing supply of allowances
What Do Covered Entities Need to Do?

- Register with ARB
- Report GHG emissions annually
- Acquire compliance instruments (allowance and offsets) equivalent to emissions
- Surrender allowances and offsets to match emissions at the end of each compliance period
- Comply with record-keeping, market rules, verification and other requirements in the regulation
Amendments to Mandatory Reporting

• Board adopted resolution for mandatory reporting to support the cap-and-trade program
  – Expands reporting to include fuel suppliers
  – 10,000 MT CO2e threshold to monitor emissions leakage below the cap
  – Abbreviated reporting for emissions <25k
• Aligns most reporting requirements with U.S. EPA regulation
  – Higher-tier methods to ensure accuracy
• Maintain 3rd-party verification
What is Tradable in the Program?

• “Compliance Instruments” that can be traded include:
  – Allowances issued by ARB
  – Offsets issued by ARB
  – Allowances and offsets from other programs (e.g. WCI partner programs) if linkage is approved by the Board
  – Other compliance instruments if approved by ARB
Who Can Trade?

- Covered entities
- Other participants, e.g., wholesale marketers or other individuals who register in the tracking system could also buy, sell, or retire allowances and offsets
- Offset project developers
Allowance Distribution

- Most allowances freely distributed to covered entities at program start
  - Provide smooth transition and minimize leakage
- Small percentage auctioned in 2012
  - Auction floor price of $10 in 2012
- Auction increases in 2015 as fuel suppliers are added and transition assistance declines
- Use of revenue to protect consumers and further goals of AB 32
Cost-Containment Features

- Inherent trading flexibility
- Three-year compliance periods
- Banking
- Allowance reserve
- Offsets
- Linkage
• An offset is a credit for a verified emission reduction from a source outside the cap-and-trade program
• Offsets reduce emissions in sectors not easily reached through the cap-and-trade program or other regulatory means
Offsets (2)

- Reductions must be real, additional, quantifiable, permanent, verifiable and enforceable
- Offsets must result from ARB Board approved compliance offset protocols
- A covered entity may cover no more than 8% of its emissions using offsets
Compliance Offset Protocols

- Four ARB compliance offset protocols have been approved by the Board
  - Livestock Manure (Digester) Projects Protocol
  - Urban Forest Projects Protocol
  - U.S. Ozone Depleting Substances Projects Protocol
  - U.S. Forest Projects Protocol
- Kick-off meeting next month to identify projects types for next round of protocols
Recognizing Early Action

- Regulation includes a process and criteria for accepting “early action” offsets from qualified existing offset projects
- Includes protocols developed by CAR for four project types
Linkage

- Regulatory action that requires Board approval
- Allowances and offsets from linked programs could be used for compliance in California
- Staff will evaluate linkage with WCI partners
  - Some partners are on track to implement their programs by 2012
  - Rulemaking for potential WCI linkage later this year
Ensuring Market Integrity

- All traders must register in the cap-and-trade tracking system
- The tracking system provides a chain of custody for allowances and offsets that can be used in the program
- Balance need for transparency and safeguards to prevent market manipulation
- Purchase and holding limits
Compliance and Enforcement

- Registration, reporting and third-party verification requirements
- Program designed to encourage compliance
- Covered entities must surrender compliance instruments for a portion of their emissions each year starting in 2013
Next Steps

• Workshops Spring 2011
• Notice for 15-day regulation changes
  Spring/Summer 2011
• Finalize regulation by October 2011
• Program start January 1, 2012
Additional Information

• For upcoming meetings and events related to cap-and-trade please visit:
  http://www.arb.ca.gov/cc/capandtrade/capandtrade.htm

• Join the cap-and-trade listserv at:
  http://www.arb.ca.gov/listserv/listserv_ind.php?listname=capandtrade