

Special Topics Series:
**Cap-and-Trade in
California**



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Webinar will begin shortly

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Today's Webinar

- Introduction
 - **Gary Gero**
President
Climate Action Reserve
- Guest Speaker
 - **Brienne 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

Offsets (1)

- 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