

California's Cap-and-Trade Program

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June 6, 2012

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Agenda

- Cap-and-Trade Regulation Update
- Program Overview
- Offsets
- Linkage
- Next Steps

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Regulation Update

- Cap-and-Trade Regulation
 - Board approved resolution to adopt December, 2010
 - Board adopted the final regulation October, 2011
 - Regulation became effective January, 2012

Cap-and-Trade Overview

- The cap is the aggregate limit on GHG emissions from covered sources from 2013-2020
 - The cap applies to all sources combined
 - Individual facilities do not have caps
- Cap covers 85% of California's GHG emissions
 - Large industrial sources
 - Electricity generation and imports
 - Transportation fuels (beginning in 2015)
 - Residential and commercial use of natural gas (beginning in 2015)

Compliance Flexibility

- Covered entities have flexibility to evaluate and choose least costly method to comply:
 - Reduce emissions onsite
 - Buy allowances
 - Buy offsets
- Allowances
 - Initially, trade exposed facilities receive free allowances
 - More allowances auctioned in later years
 - Allowance auction floor price is \$10 and increases each year

Role of Offsets

- Entities may use up to 8% offsets for compliance in the cap-and-trade program
- Sources of compliance offsets
 - Issued directly by California Air Resources Board
 - Offsets issued by linked regulatory programs*
 - Western Climate Initiative
 - Sector-Based Credits*
 - e.g. REDD

* Subject to future rulemaking and stakeholder process

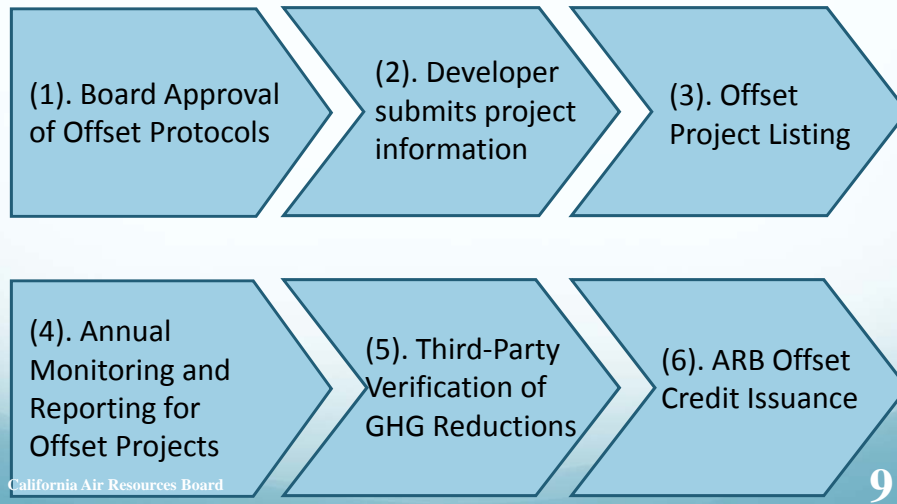
Offsets by Compliance Period

- The maximum number of offsets allowed per compliance period
 - Compliance Period 1 (2013-2014) -28 Million Metric Tons
 - Compliance Period 2 (2015-2017) -99 Million Metric Tons
 - Compliance Period 3 (2018-2020) -92 Million Metric Tons
- Covered entities may find less costly onsite reductions and not use the maximum allowable number of offsets for compliance

General Offset Criteria

- Reductions must meet AB 32 criteria
 - Real, additional, quantifiable, permanent, verifiable and enforceable
 - Additional - beyond regulation or would otherwise occur
- Offsets must result from ARB Board adopted compliance offset protocols
- Offset credits cannot be issued for GHG emission activities under the cap

General Process for Issuance of Offset Credits



Compliance Offset Protocols

- Forestry, Urban Forestry, Ozone Depleting Substances, and Livestock Digesters
 - Originally developed for voluntary offset market
 - Modified by ARB for compliance offset market
 - Considered regulatory documents
- Future Protocol Development
 - Coordinate with WCI partners
 - Develop internally or under contract
 - Must be approved by the Board after a stakeholder process

Update: Agricultural Protocols

- August, 2011 ARB announced intent to evaluate rice cultivation and nutrient management protocols
- Critical for ARB to have accurate, region and crop specific data to understand model uncertainty and support quantification of real GHG reductions for each protocol
- Rice Cultivation Protocol Update
 - ACR ongoing work to expand applicability to US
 - CAR adoption of CA only applicable protocol
 - ARB interest in data for model validation for all applicable regions
- Nutrient Management Protocol Updates
 - ARB funding studies to validate model for crops and regions in California
 - Data expected to be available beginning summer, 2012

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Voluntary Offset Registries

- Examples – Climate Action Reserve, Verified Carbon Standard, American Carbon Registry
- No regulatory relationship or formal affiliation with the State of California
- Cannot adopt compliance offset protocols on behalf of ARB
- Cannot issue compliance offset credits
- Can apply to ARB to help administer parts of the compliance offset program

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Offset Verification and Verifier Accreditation

- AB 32 requires regulatory verification for all reductions used for compliance
 - Includes ARB issued offsets and early action
- Regulation includes third-party verification
 - Based on ISO 14064
 - Expanded on requirements for Mandatory GHG Reporting
 - Strict conflict of interest requirements
- ARB will accredit third-party offset verifiers
 - Undergo protocol-specific training and pass an examination

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Offset Verifier and Registry Training

- ARB working with contractor Future Perfect to develop and deliver the training for offset verifiers and registries
- First training scheduled for mid June
- Multiple day training with exams
- Offset verifiers will not have to take training for all project types
- Registry staff to take additional training module on registry services

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Recognizing Early Action Offsets

- Regulation includes a process and criteria for accepting “early action” offsets from qualified existing offset projects
- Includes earlier versions of protocols adopted by ARB for four project types
- After transition, project begins new crediting period

Early Action Offset Criteria

- Early action projects must be located in the United States
- Registered with Early Action Program by January 1, 2014
- Cover vintages of reductions that took place between 1/1/05 and 12/31/14
- Project types for which ARB adopts a compliance offset protocol

Next Steps: Offsets

- Release of regulation guidance document related to offsets
- Continued development of offset program related forms
- Verifier and registry staff training
- Approval of offset project registries
- Accreditation of offset verifiers

Next Steps: Program

- June 28 – Board Hearing Cap-and-Trade Regulation amendments
- July – CITSS registration
- August – Practice auction
- September – Regulatory amendments in effect
- November – First auction

Additional Information

- Cap-and-Trade Program

<http://www.arb.ca.gov/cc/capandtrade/capandtrade.htm>

- Join the cap-and-trade listserve at:

http://www.arb.ca.gov/listserv/listserv_ind.php?listname=capandtrade

Questions