PREPARING FOR THE 2021 ANNUAL COMPLIANCE OBLIGATION

The fourth California Cap-and-Trade Program Compliance Period (CP4) began on January 1, 2021 and ends on December 31, 2023. This Compliance Period includes two annual compliance obligation deadlines, November 1, 2022 (for 2021 emissions) and November 1, 2023 (for 2022 emissions), and one Full Compliance Period Compliance Obligation deadline on November 1, 2024 (Full Compliance Obligation).

- The 2021 Annual Compliance Obligation is due by no later than: November 1, 2022, 5:00 PM Pacific Time.

This document outlines the key actions that the Primary Account Representative (PAR) and/or an Alternate Account Representative (AAR) should undertake to ensure entities have sufficient compliance instruments (eligible allowances and offset credits) in the compliance account to fulfill the 2021 Annual Compliance Obligation. This document provides the following guidance:

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CARB staff are available by phone and email to assist with any compliance-related questions.

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1.1 SUMMARY OF THE 2021 ANNUAL COMPLIANCE OBLIGATION

1.1.1 Key Points

• The 2021 Annual Compliance Obligation is due by no later than: November 1, 2022, 5:00 PM Pacific Time.

• The 2021 Annual Compliance Obligation is 30 percent of 2021 verified emissions. Compliance Instrument Tracking System Service (CITSS) account representatives must transfer eligible instruments to an entity’s compliance account (surrender instruments) before the 2021 Compliance Obligation deadline on November 1, 2022 at 5:00 PM Pacific Time.

• Eligible Instruments for the 2021 Annual Compliance Obligation are:
  o Allowances with vintage 2021 or earlier
  o Allowances with no vintage (always eligible)
  o Offset credits of any vintage (up to the Quantitative Usage Limit, which is 4 percent of verified covered emissions)
    ▪ Offset credits without the special category designation Direct Environmental Benefits in the State (DEBS) cannot account for more than half of the Quantitative Usage Limit (2 percent of verified covered emissions).
  o Entities assigned a true-up quantity in CITSS can use vintage 2022 and/or 2023 allowances up to the specified by “Remaining True-up Quantity”

• Failure to fulfill a compliance obligation by the deadline results in an Untimely Surrender Obligation. The Untimely Surrender Obligation is any unfulfilled portion of an entity’s Annual or Full Compliance Period Compliance Obligation and is calculated as four times the entity’s outstanding emissions.

1.1.2 Discussion

The annual compliance obligation period for 2021 emissions ended on December 31, 2021. Entities were required to report verified 2021 emissions to CARB no later than August 10, 2022. Account representatives must transfer a sufficient number of eligible compliance instruments into an entity’s compliance account in CITSS by the November 1, 2022 compliance obligation deadline.

An entity may use offset credits to satisfy a portion of the 2021 Annual Compliance Obligation. The maximum number of offset credits allowed (known as the Quantitative Usage Limit) is 4 percent of verified covered emissions. Offset credits without the DEBS special category designation cannot account for more than half of the Quantitative Usage Limit. Offset credits of any vintage are eligible.

The CITSS Compliance Obligation Detail Report shows past and current compliance obligations. For current compliance obligations, CITSS shows a pending compliance status to assist account representatives in determining if sufficient eligible compliance instruments are in the compliance account to satisfy the compliance obligation.
The CITSS Compliance Obligation Detail Report does not show current compliance obligations until CARB uploads verified covered emissions and approves the compliance obligation in CITSS. CARB expects the 2021 Annual Compliance Obligation will be available in CITSS by early October 2022. Covered entities will receive an email from CITSS once the annual compliance obligation has been approved.

1.2 HOW TO REVIEW FACILITY INFORMATION

1.2.1 Key Points

Verified facility covered emissions are the basis for compliance obligations. CITSS sums verified facility covered emissions to determine the basis of an entity’s compliance obligation.

- An account representative should confirm that:
  - The correct facilities are associated with the entity’s CITSS account
  - Each facility has the correct GHG Emissions Reporting ID
  - Each facility has a correct status of active or retired
  - The CITSS GHG Emissions Reporting ID assigned to each facility is the same as the Cal-eGGRT ARB GHG Reporting ID for that facility

1.2.2 Discussion

Facility verified covered emissions are the basis of the compliance obligation calculation. An entity account can have multiple associated facilities and covered emission sources. CITSS identifies each facility or emission source associated to an entity account by a unique CITSS Facility ID and the CITSS GHG Emissions Reporting ID. The CITSS GHG Emissions Reporting ID is the same as the ARB GHG Reporting ID in the California electronic Greenhouse Gas Reporting Tool (Cal-eGGRT).

Figure 1 is a screenshot of the CITSS Facilities Tab. CITSS lists all facilities ever associated with an entity with its GHG Emissions Reporting ID and Facility Status. Facilities with “Active” status are currently associated with the entity and contribute to a compliance obligation. Account representatives should confirm that the correct facilities are associated with the entity, that each facility is active or retired as applicable, and that the CITSS GHG Emissions Reporting ID for each facility is the same as the ARB GHG Reporting ID in Cal-eGGRT.
1.3 HOW TO REVIEW FACILITY VERIFIED COVERED EMISSIONS

1.3.1 Key Points

- CITSS calculates the annual compliance obligation based on verified facility covered emissions for the applicable years.
- CITSS shows verified covered emissions by facility by year.
- An account representative should confirm that:
  - Verified covered emissions are correct
  - Verified covered emissions are associated to the correct facility

1.3.2 Discussion

CITSS calculates compliance obligations based on verified facility covered emissions for the applicable years. Entities report verified covered emissions to CARB no later than August 10 of the year following the calendar year in which the covered emissions occurred (e.g., entities reported and verified 2021 emissions to CARB no later than August 10, 2022).

Figure 2 shows a screenshot of a CITSS Emissions Report displaying all verified covered emissions by budget year and facility.
1.4 HOW TO ESTIMATE THE 2021 ANNUAL COMPLIANCE OBLIGATION

1.4.1 Key Points

- The 2021 Annual Compliance Obligation is 30 percent of 2021 verified covered emissions.

- Representatives can preview the 2021 Annual Compliance Obligation on the CITSS Compliance Obligation Detail Report by early October 2022. Covered entities will receive an email from CITSS once the Annual Compliance Obligation has been approved.

1.4.2 Discussion

Using preliminary reported emissions, entities can estimate their Annual Compliance Obligation before CITSS shows the current compliance obligation.

Cal-eGGRT stores emission values in decimal format. CITSS stores emission values as whole numbers. CARB uses conventional rounding (less than 0.5 round down, 0.5 and greater round up) when uploading Cal-eGGRT emissions into CITSS.

CITSS calculates the annual compliance obligation as 30 percent of verified covered emissions. CARB always rounds down the calculated annual compliance obligation to the nearest whole number regardless of the value after the decimal.
The example in Table 1 demonstrates calculation of the 2021 Annual Compliance Obligation for an entity with 2021 verified covered emissions of 101,001.79 metric tons of carbon dioxide equivalent (MTCO\textsubscript{2}e).

Table 1: Example Calculation of a 2021 Annual Compliance Obligation

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Verified 2021 emissions in Cal-eGGRT</td>
<td>100,001.79 MTCO\textsubscript{2}e</td>
</tr>
<tr>
<td>Verified emissions (conventional rounding) in CITSS</td>
<td>100,002 MTCO\textsubscript{2}e</td>
</tr>
<tr>
<td>Calculated 30% of verified emissions</td>
<td>30,000.6 MTCO\textsubscript{2}e</td>
</tr>
<tr>
<td>Annual Compliance Obligation (30% of verified emissions, rounded down)</td>
<td>30,000 MTCO\textsubscript{2}e</td>
</tr>
</tbody>
</table>

In the Table 1 example, verified annual emissions in Cal-eGGRT are 100,001.79 MTCO\textsubscript{2}e. CARB uses conventional rounding to determine verified emissions uploaded into CITSS, resulting in rounding up the verified emissions from Cal-eGGRT to 100,002 MTCO\textsubscript{2}e. Thirty percent of the verified emissions is 0.3 × 100,002 which equals 30,000.6 MTCO\textsubscript{2}e. CARB rounds the calculated value down to the nearest whole number, resulting in an annual compliance obligation of 30,000 MTCO\textsubscript{2}e. At the end of the compliance period, the remaining facility emissions of 70,002 MTCO\textsubscript{2}e will be included in the Full Compliance Period Compliance Obligation.

1.5 QUANTITATIVE USAGE LIMIT

1.5.1 Key Points

- An entity may use offset credits to satisfy a portion of the 2021 Annual Compliance Obligation.
- The Quantitative Usage Limit sets the maximum number of offset credits an entity can use.
- The Quantitative Usage Limit for the 2021 Annual Compliance Obligation is 4 percent of 2021 verified covered emissions.
- Offset credits without the DEBS special category designation cannot account for more than half of the Quantitative Usage Limit.

1.5.2 Discussion

In CITSS, verified covered emissions are uploaded as a whole number. Multiplication of verified covered emissions as a whole number by 0.04 (4 percent) usually results in a decimal value. To avoid exceeding the Quantitative Usage Limit, CARB rounds the calculated maximum number of offset credits down to the nearest whole number.
Table 2 shows an example calculation of the maximum number of offset credits an entity may use for the 2021 Annual Compliance Obligation. In Table 2, verified annual emissions are 100,002 MTCO$_2$e. Four percent of the verified emissions (0.04 × 100,002) is 4,000.08 MTCO$_2$e. To avoid exceeding the Quantitative Usage Limit, CARB rounds down the calculated value to the nearest whole number, resulting in 4,000 offset credits as the maximum number of offset credits allowed for this compliance obligation. Offset credits without the DEBS special category designation cannot account for more than half of the Quantitative Usage Limit (rounded down). For this example, a maximum of 2,000 offset credits that do not have a DEBS designation can be used for this compliance obligation.

Table 2: Example Calculation of Maximum Offset Credits for 2021 Annual Compliance Obligation

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Verified annual emissions in CITSS</td>
<td>100,002 MTCO$_2$e</td>
</tr>
<tr>
<td>Quantitative Usage Limit</td>
<td>4 percent</td>
</tr>
<tr>
<td>4 percent of verified annual emissions</td>
<td>4,000.08 MTCO$_2$e</td>
</tr>
<tr>
<td>Maximum number of offset credits that can be used for compliance obligation (rounded down)</td>
<td>4,000</td>
</tr>
<tr>
<td>Limit on offset credits surrendered from non-DEBS projects</td>
<td>50 percent of Quantitative Usage Limit</td>
</tr>
<tr>
<td>Maximum number of offset credits surrendered from non-DEBS projects (rounded down)</td>
<td>2,000</td>
</tr>
</tbody>
</table>

1.6 UNDERSTANDING ELIGIBLE COMPLIANCE INSTRUMENTS

1.6.1 Key Points

- An entity must use eligible instruments to fulfill a compliance obligation.
- Eligible Instruments for the 2021 Annual Compliance Obligation are:
  - Allowances with vintage 2021 or earlier
  - Allowances with no vintage (always eligible)
  - Offset credits of any vintage (up to the 4 percent Quantitative Usage Limit)
  - Offset credits without the DEBS special category designation cannot account for more than half of the Quantitative Usage Limit (2 percent).
- Entities assigned a true-up quantity can use a limited number of vintage 2022 and/or 2023 allowances as specified by the “Assigned Vintage” associated with the entity’s Remaining True-up Quantity. Section 1.7 of this document provides further explanation of “Assigned Vintage.”
1.6.2 Discussion

Eligible allowances for the 2021 Annual Compliance Obligation include allowances with a vintage 2021 or earlier. Offset credits of any vintage are eligible. The number of offset credits is subject to the Quantitative Usage Limit of 4 percent of verified covered emissions. Offset credits without the DEBS special category designation cannot account for more than half of the Quantitative Usage Limit. Price Containment Reserve Allowances (PCRAs) and other allowances without a vintage are always eligible. An entity with Remaining True-up Quantity may also use the specified number of vintage 2022 and/or 2023 allowances.

CITSS will only retire the number of instruments from the compliance account necessary to fulfill the compliance obligation. CITSS leaves any excess instruments in the compliance account.

Figure 3 shows the CITSS Eligible Instruments for Retirement screen, which lists eligible instruments and the order that instruments are retired during compliance. The eligible instruments retirement order for the 2021 Annual Compliance Obligation is:

1) Offset credits
   a) Oldest vintages retired first
   b) Limited to Quantitative Usage Limit of 4 percent of total covered emissions with a compliance obligation
   c) Offset credits without the DEBS special category designation cannot account for more than half of the Quantitative Usage Limit

2) Price Containment Reserve Allowances

3) Other nonvintage allowances

4) Allowances of vintage equal to the compliance obligation budget year or earlier
   a) Oldest vintages retired first

5) Allowances allocated for the purpose of true-up and transferred to the compliance account
   a) Oldest vintages retired first
1.7 HOW TO REVIEW COMPLIANCE OBLIGATION DETAIL IN CITSS

1.7.1 Key Points

- The Compliance Obligation Detail Report shows all relevant information for a selected compliance obligation.
- The Compliance Obligation Detail Report cannot show current compliance obligations until CARB uploads verified covered emissions, allowing calculation of the obligations, in early October.
- CITSS evaluates instruments in the compliance account and calculates if there are enough eligible instruments to fulfill the compliance obligation. This evaluation informs the Compliance Status.

1.7.2 Discussion

The CITSS Compliance Obligations Detail Report presents detailed information about an individual compliance obligation. To access the Compliance Obligations Detail Report, choose the desired obligation from the CITSS Compliance Obligation Report. Figure 4 is a screenshot of the CITSS Compliance Obligations Report. The screenshot shows the search fields for 2021 compliance obligations, and the resulting 2021 Annual Compliance Obligation identified for E&N Industries.
On the Compliance Obligations Report (Figure 4), the Current Tab is the default page with filters to view current or future compliance obligations. The Past Tab must be selected to review the information for past compliance obligations. This screen provides general information about the compliance obligation, including the Obligation Period, Compliance Deadline, Obligation Period Status, CITSS Entity ID, Entity Legal Name, and the amount of the Compliance Obligation. To view the details of an individual compliance obligation, select the CITSS Entity ID (hyperlink) to open the Compliance Obligation Detail Report for the selected obligation.

Figure 5 is a screenshot of the CITSS Compliance Obligation Detail Report. The text section following Figure 5 describes the key parts of the report. Not all components will be available to every entity or obligation.
Figure 5: Screenshot of CITSS Compliance Obligation Detail Report

Home > Representative Reports > Compliance Obligations – Current Tab > CITSS
Entity ID (hyperlink)
1.7.3 Description of the CITSS Compliance Obligation Detail Report

The Compliance Obligation Detail Report presents all the information needed to review an entity’s compliance obligation information. Each section of the Compliance Obligation Detail Report contains a purple question mark “?”Hover the mouse over the purple question mark to view an explanation of the topic.

Compliance Obligation Information.
The “Compliance Obligation Information” section of the Compliance Obligation Detail Report is the most important part of the report. The format is like a math equation.

- “Compliance Obligation” minus “Instruments Retired” equals “Balance to Fulfill Obligation.”
- “Balance to Fulfill Obligation” minus “Instruments in Compliance Account to be Retired” equals “Additional Instruments Needed in Compliance Account” to fulfill the obligation.

To assist account representatives, CITSS evaluates the compliance obligation information and determines a Compliance Status. “Pending Unfulfilled” indicates there are not sufficient instruments in the compliance account to satisfy the obligation. “Pending Fulfilled” indicates there are sufficient instruments in the compliance account to satisfy the obligation.

Instruments in Compliance Account to be Retired
The “Instruments in Compliance Account to be Retired” section lists the type and number of instruments that CITSS will retire at the compliance deadline.

Remaining True-up Quantity
“Remaining True-up Quantity” is the balance of unused true-up quantity. “Remaining True-up Quantity” is the maximum number of allowances of the Assigned Vintage that an entity can use as eligible allowances toward fulfillment of the current obligation. “Remaining True-up Quantity” remains useable until the Assigned Vintage becomes current and the true-up value is no longer required for the allowances to be eligible. True-up value is described in more detail in Section 1.8.

Facility Emissions
The “Facility Emissions” section identifies the facilities and verified facility covered emissions that contribute to the compliance obligation.

Assigned True-up Quantity
“Assigned True-up Quantity” is the true-up value assigned to adjust for a change in production or required allocation.
1.8 UNDERSTANDING TRUE-UP

1.8.1 Key Points

- CARB allocates allowances to adjust for verified covered product data and changes in required allocation not reflected in prior allocations for a given year.
- “True-up Quantity” is a value, not a type of allowance.
- Remaining True-up Quantity is the number of allowances with a vintage later than the compliance obligation budget year that an entity can use to fulfill the current compliance obligation (i.e., an entity assigned a true-up quantity may use a specified quantity of 2022 and/or 2023 vintage allowances for the 2021 Annual Compliance Obligation).

1.8.2 Discussion

Understanding true-up requires understanding related terminology and timing of activities. The budget year is the year the emissions occurred. CARB provides initial allowance allocation with a vintage the same as the budget year prior to each budget year. Entities report verified covered emissions and verified covered product data to CARB following each budget year. If verified covered emissions and verified covered product data require a greater number of allocated allowances than the initial allowance allocation, then after the budget year CARB provides additional allowances of a later vintage to adjust the initial allowance allocation to the appropriate final value for the budget year. CARB refers to this process as “true-up.”

When CARB receives verified covered emissions for a budget year, allowances with the vintage equal to the budget year are no longer available to allocate. As a result, allowances allocated for true-up are of the vintage two years later than the budget year. Allowances allocated for true-up are included in the annual allocation each October. A summary of the 2021 budget year true-up cycle is as follows:

2021 Jan-Dec ...... 2021 budget year emissions occur.
2022 Aug .......... 2021 verified covered emissions are reported and True-up Quantity calculated.
2022 Oct .......... CARB assigns 2021 True-up Quantity in CITSS by including additional vintage 2023 allowances equal to the amount of the Assigned True-up Quantity to adjust the initial the 2021 budget year allocation to the appropriate final value.

Per the above description, the true-up process allows for the use of the specified number (i.e., the “Assigned True-up Quantity”) of vintage 2023 allowances to fulfill the 2021 Annual Compliance Obligation or any later compliance obligation.
**True-up Quantity Terminology**

- “Assigned True-up Quantity” defines the eligible vintage and number of allowances allocated for true-up.
- “Remaining True-up Quantity” is the balance of unused True-up Quantity. “Remaining True-up Quantity” is the maximum number of allowances of the specified vintage that an entity can use as eligible allowances toward fulfillment of the current compliance obligation.
- “Remaining True-up Quantity” remains useable until the assigned vintage becomes current, and the true-up value is no longer required for the allowances to be eligible.

Figure 6 is a screenshot of the CITSS True-Up Quantity Report for the fictional entity, E&N Industries, for budget years 2020 and 2021. The figure shows that CARB assigned a True-up Quantity of 500 allowances to E&N Industries Manufacturing facility for budget year 2020 and 592 allowances for budget year 2021.

**Figure 6: Screenshot of CITSS True-Up Quantity Report**

Home > Representative Reports > Compliance – True-Up Quantity

CITSS provides information about Assigned True-up Quantity and Remaining True-up Quantity by Assigned Vintage in the Compliance Obligations Details Report (described in Section 1.7 of this document). Figure 7 is excerpted from that report and shows that CARB allocated 906 vintage 2023 allowances to adjust the allocation for budget year 2021. The “Remaining True Quantity” is 906 (same as the Assigned True-up Quantity) because the entity has not yet used any 2023 allowances for compliance.
An entity can sell allocated allowances once those allowances are available in the General Holding Account, but True-up Quantity remains with the entity to which it was initially assigned. This means that the purchasing entity cannot use those allowances with a future vintage for compliance unless it has also been assigned a True-up Quantity. An entity that sells its allocated allowances may no longer have allowances of an Assigned Vintage. In such a situation, the entity can purchase other allowances of the Assigned Vintage and surrender those up to the “Remaining True-up Quantity.”

Figure 7: Screenshot of CITSS Assigned and Remaining True-up Quantity
Home > Representative Reports > Compliance Obligations – Current Tab