OVERVIEW OF

ARB Emissions Trading Program

Assembly Bill 32 requires California to return to 1990 levels of greenhouse gas emissions by 2020. All programs developed under AB 32 contribute to the reductions needed to achieve this goal, and will deliver an overall 15% reduction in greenhouse gas emissions compared to the "business-as-usual" scenario in 2020 if we did nothing at all.

The Cap-and-Trade Program is a key element of California's climate plan. It sets a statewide limit on sources responsible for 85 percent of California's greenhouse gas emissions, and establishes a price signal needed to drive long-term investment in cleaner fuels and more efficient use of energy. The program is designed to provide covered entities the flexibility to seek out and implement the lowest-cost options to reduce emissions.

Scope

- Program covers about 450 entities
- Starts in 2013 for electricity generators and large industrial facilities emitting 25,000 $MTCO_2e$ or more annually
- Starts in 2015 for distributors of transportation, natural gas, and other fuels
- In 2014, California's program linked with the Canadian province of Québec
- Designed to link with similar trading programs in other states and regions

The Cap

- Set in 2013 at about 2 percent below the emissions level forecast for 2012
- Declines about 2 percent in 2014
- Declines about 3 percent annually from 2015 to 2020

Free Allocation of Allowances

Large industrial facilities

- Focus on free allocation early in the program, transitions to more auction later in program
- Allocation of allowances for most industrial sectors is set at about 90 percent of average emissions, based on benchmarks that reward efficient facilities
- For most industrial sectors, distribution of allowances is updated annually according to the production at each facility

Electrical distribution and natural gas utilities

- Free distribution of allowances, with the requirement that the value of allowances must be used to benefit ratepayers and achieve greenhouse gas emissions reductions
- For electrical distribution utilities, free allocation is set at about 90 percent of average emissions
- For natural gas utilities, free allocation is based on natural gas supplied in 2011 to non-covered entities

Cost Containment and Market Flexibility Mechanisms

- Trading of allowances is allowed to minimize cost of pollution controls
- Banking of allowances is allowed to guard against shortages and price swings
- 4 percent of allowances are held in a strategic reserve to contain costs
- Multi-year compliance periods to buffer annual variations in product output

Offsets

- Allowed for up to 8 percent of a facility's compliance obligation
- Limited to emissions-reduction projects in U.S.
- Restricted to projects in five areas: forestry, urban forestry, dairy digesters, destruction of ozone-depleting substances, and mine methane capture
- Offsets must be independently verified
- Currently analyzing rice cultivation protocol

Emissions Reporting and Verification through the Mandatory Reporting Regulation

- Covered entities must report emissions and additional data annually (as required since 2008)
- Independent third-party verification

Compliance and Enforcement

- Every year, covered entities turn in allowances and offsets for 30 percent of previous year's emissions
- Each compliance period, covered entities turn in allowances and a limited number of offsets covering the remainder of emissions in that compliance period
- If the compliance deadline is missed or there is a shortfall, four allowances must be provided for every ton of emissions that was not covered in time
- The program includes mechanisms to prevent market manipulation
- ARB has a market monitoring group that coordinates with state and federal agencies on market oversight

Milestones

- November 14, 2012: ARB conducted first auction of allowances
- January 1, 2013: Compliance obligation for greenhouse gas emissions began
- January 1, 2014: Linked with Québec's cap-and-trade system
- November 1, 2014: Program achieved 100 percent compliance at first compliance event
- January 1, 2015: Compliance obligation began for distributers of transportation fuels, natural gas, and other fuels

For More Information

Contact Ms. Rajinder Sahota at (916) 323-8503 or at RSahota@arb.ca.gov

To obtain this document in an alternative format or language please contact the ARB's Help line at (800) 242-4450 or at helpline@arb.ca.gov. TTY/TDD/ Speech to Speech users may dial 711 for the California Relay Service.

Para obtener este documento en un formato alterno o otro lenguaje, por favor contacta al telefónico de asistencia de ARB al (800) 242-4450 o helpline@arb.ca.gov. TTY/TDD/Usuarios que hablan pueden marcar el 711 para el Servicio de Retransmisión de Mensajes de California.