California’s Cap-and-Trade Program: Program Basics and Requirements for Electrical Distribution Utilities

May 2012
What is Cap and Trade?

• A market-based mechanism that places a “cap” on greenhouse gas (GHG) emissions from covered sources. The cap declines over time to achieve economy-wide emissions reductions.

• Part of a suite of complementary measures (including the Renewables Portfolio Standard and Low Carbon Fuel Standard, among others) that will collectively reduce GHG emissions to 1990 levels by 2020.

• Participants are required to surrender one compliance instrument (allowances and offsets) for each metric ton of covered GHG emissions.

• Compliance instruments may be traded.
Who is Covered under the Cap-and-Trade Program?

• Starting in 2012, stationary sources emitting at or above 25,000 metric tons of CO$_2$e per year
  – Large industrial sources
  – Electricity generation and importers of electricity

• Beginning in 2015, combustion from smaller emissions sources will be captured by assessing a compliance obligation on upstream fuel suppliers
  – Transportation fuels
  – Residential and commercial use of natural gas
What is Required of Covered Entities?

• Register with ARB
• Report and verify GHG emissions annually
• Surrender compliance instruments to match covered emissions at the end of each compliance period
• Comply with recordkeeping and market rules, as well as with other program requirements
Mandatory Reporting Regulation
Timeline for Electrical Distribution Utilities

• Feb 1: Deadline for registering specified sources
• April 10: Deadline to submit previous year’s GHG emissions report for in-state power plants
• Jun 1: Deadline to submit previous year’s GHG emissions report for imported electricity
• Sep 1: Deadline to verify emissions
Cap-and-Trade Program Timeline: 2012

- Sep 1: POUs and co-ops must inform ARB of allowance placement into Compliance Account or Limited Use Holding Account
- Sep 14: Allocation to electrical distribution utilities for vintage 2013 allowances
- Mid-Sep: Notice of November 14th auction
- Mid-Oct: Auction participant application deadline
- Early Nov: Deadline to submit bid guarantee
- At least ten days prior to auction: Deadline to consign allowances to auction
- Nov 14: Auction
Cap-and-Trade Program Timeline: 2013–2021

- **Auctions**: 12th business day of Feb, May, Aug, and Nov, 2013–2020
- **Reserve sales**: 1st business day 6 weeks after each quarterly auction, 2013–2020
- **June 1, 2014–2021**: Attestation of no resource shuffling
- **June 30, 2014–2021**: Report on use of auction proceeds
- **Sep 1, 2013–2020**: Deadline for POUs and co-ops to report on allowance account placement for allocation
- **Nov 1, 2014–2021**: Surrender of compliance instruments
- **Nov 1, 2013–2019**: Allocation of allowances to electrical distribution utilities for the next vintage year
Registration and the Tracking System

• Register with the Compliance Instrument Tracking System Service (CITSS)
  – Registration will open summer 2012

• Primary Account Representative and Alternate(s)
  – Legal authority to act on behalf of entity

• Three account types applicable to program participants
  – Holding Account
  – Compliance Account
  – Limited-Use Holding Account (specific to electrical distribution utilities)
Quarterly Auctions: 2013–2020

- Occur on the 12th business day of the second month of each quarter
- Bidding occurs on the day of the auction
- 40% purchase limit for current vintage allowances
- 25% purchase limit for future vintage allowances
Quarterly Auctions (continued)

- 75 days prior: Consign allowances to auction
  - Must annually consign *all* current and prior vintage allowances in Limited Use Holding Account
- 60 days prior: Auction will be noticed
- 30 days prior: Auction participant applications due
- 12 days prior: Bid guarantees due (bond, cash, or letter of credit)
Price-Containment Reserve Sales: 2013–2020

• First sale: March 8, 2013
• Subsequent sales occur on the first business day six weeks after each quarterly auction
• Three fixed-price tiers (in 2013: $40, $45, and $50)
• Prices adjust annually for inflation and 5% real appreciation
• 12 days prior: Bid guarantees due (bond, cash, or letter of credit)
Annual Allocation: 2013–2019

• IOUs must consign all allowances to auction
• POUs may distribute allowances between:
  – Compliance Account of generation facility owned by
    • Utility or cooperative
    • Joint power authority
  – Limited Use Holding Account (consign to auction)
• POUs must inform ARB how to distribute allowances amongst accounts by Sep 1
Annual Allocation (continued)

- Allowances are distributed to electrical distribution utilities for the benefit of ratepayers
- Annual allocations by electrical distribution utility can be found in table 9-3 of the regulation

Example of a utility’s allocation calculation of vintage 2013 allowances distributed in 2012

<table>
<thead>
<tr>
<th>Utility’s Share</th>
<th>Annual Sector Allocation</th>
<th>Utility’s Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>15% From table 9-3</td>
<td>97.7 MMT Base Allocation 0.981 From table 9-2</td>
<td>14,376,555 2013 Allowances</td>
</tr>
</tbody>
</table>
Compliance Obligation Surrender: 2014–2021

• Compliance obligation calculated from reported and verified emissions per section 95852 of the regulation
• **Annual Surrender:** Nov 1, 2014, 2016, 2017, 2019, and 2020 – Surrender instruments equal to 30% of the previous year’s emissions with a compliance obligation (based on the reported data)
• **Triennial Surrender:** Nov 1, 2015, 2018, and 2021 – Surrender instruments equal to its compliance period obligation minus what has previously been surrendered (based on verified data)
Use of Offsets as Compliance Instruments

- Each covered entity is limited to satisfying up to 8% of its total compliance obligation, per compliance period, with offset credits.
- No limit on the percentage of offsets that may be used to satisfy the annual 30% surrender requirement.
Staying Informed

• Register with Cap-and-Trade Program listserv to keep informed of additional information

• Register with tracking system
  – Available summer 2012

• Cap-and-Trade Program web site:
  – http://www.arb.ca.gov/cc/capandtrade/capandtrade.htm

• Cap-and-Trade Program Hotline
  – (916) 322-2037