PROPOSED CHANGES TO THE MANDATORY REPORTING & GREENHOUSE GAS CAP-AND-TRADE REGULATIONS

JULY 15, 2011
CALIFORNIA AIR RESOURCES BOARD
Agenda

• Mandatory Reporting Regulation
  • Discussion

• Cap-and-Trade Regulation
  • Discussion
    • Market Operations, Oversight and Timing
    • Allowance Allocation
    • Electricity Sector
    • Offsets and Protocols
    • Other Topics
Purpose of This Workshop

• Provide opportunity for stakeholder questions and discussion prior to release of formal “15-day” regulatory language
  • Comments received during this workshop are not included in the formal rulemaking records

• Brief overview of major changes

• Majority of time for questions, clarification, and discussion
Workshop Presentation

• Workshop presentation can be downloaded at http://www.arb.ca.gov/cc/capandtrade/meetings/meetings.htm

• During this workshop, please send your questions or comments to: ccworkshops@arb.ca.gov
Mandatory Reporting Regulation

Overview of Proposed Changes

• General Provisions
• Verification
• Industrial Facilities
  • Electricity Generation and Cogeneration Units
  • Oil and Gas Systems
  • Other Facilities
• Electric Power Entities
• Fuel Suppliers
Mandatory Reporting Regulation

• Proposed regulation considered by the Board in December 2010

• Discussion Draft reflects staff’s proposed language to implement Board direction
  • http://www.arb.ca.gov/cc/reporting/ghg-rep/ghg-rep.htm

• “15-day” language changes scheduled for release later this month
General Provisions

Applicability, Definitions, Schedule

• Incorporated updated U.S. EPA greenhouse gas reporting requirements

• Excluded reporting of fugitive emissions from farms, livestock operations, and landfills

• Modified and added definitions to improve clarity and maintain consistency

• Set verification deadline to September 1 for all reporters
General Provisions

Reporting and Documentation

• Modified abbreviated reporting for <25,000 MT CO$_2$e facilities
• Added reporting of electricity and thermal energy sales
• Reduced records retention from 10 to 7 years
• Added documentation requirements for power entities
General Provisions

Biomass and Measurements

- Biomass-derived fuels
  - Require supplier and fuel type for solid fuels
  - Clarified language for “Other Biomass CO₂”
- Included specific measurement accuracy requirements
- Removed weekly fuel monitoring requirement, but still needed for certain missing data options
General Provisions
Confidentiality and Enforcement

• Clarified data publicly released by U.S. EPA is considered public by ARB
• Clarified scope of enforcement provisions
• Added enforcement language to reference factors ARB must consider in determining any penalties
General Provisions

Missing Data Procedures

- Modified ARB missing data requirements to begin in 2013. Use U.S. EPA procedures in 2012
- Added eligibility criteria for fuel consumption missing data procedures
- Clarified that operators may select among several data monitoring options to prevent triggering missing data requirements
Verification

General

• Provided flexibility on when full verification is required

• Clarified the process for the submitting the COI and NOVS form

• Modified sampling plan and missing data requirements

• Clarified the definition of material misstatement

• Clarified methodologies for assigning an emissions level
Verification
Product Data

- Added product data verification to support the cap and trade program.
- Verification requirements
  - Sampling plan
  - Data checks
  - Material misstatement
  - Separate verification statement
Verification

Petition Process

• Verification body would now also notify ARB ten working days prior to an adverse verification statement.
• The reporter may file a petition with the Executive Officer (EO) prior to the verification deadline, but must include all information for EO decision.
• EO request for additional information must be met within 5 days.
• EO decision by October 10th
Verification
Biomass-Derived Fuels

• Added language to reflect the distinction between biogas and biomethane
• Added requirement to verify that a biomass-derived fuel used by a reporting entity is consistent with the Cap and Trade regulation
Verification

Other Changes

• Clarified the conflict of interest provisions for air districts
• Added criteria for becoming an offset project specific verifier
Stationary Combustion

• Specify that CEMS reporters do not have to perform fuel sampling, but must report fuel usage
• Include pilot light emissions
• Require weighted fuel use method when determining annual carbon content
• Allow isotopic carbon content analysis to be used for fuel as well as exhaust samples
• Clarify requirements for biomass and municipal solid waste estimates
Electricity Generation and Cogeneration Units

- Require additional data to enable energy balance accounting, other analyses
- Require one-time submission of an energy flow and metering diagram for cogen units
- Clarified requirements for:
  - Weighted average HHV/carbon content
  - Part 75 sources to follow Subpart D
  - Fuel consumption for bottoming cycle cogen units
- Reduced requirements for some facilities
Oil and Gas Systems

- Incorporated much of U.S. EPA Subpart W
- Retained separate requirements for some production and processing source types
  - Pneumatics, storage tanks, produced water, wellpad compressors ≥250 hp
- Included changes to correct errors, provide clarification and improve data quality.
Other Industrial Sectors

- Allow emission factors in lieu of measurement for coke vessel venting
- Provide for calculations by hydrogen plant operators that avoid double-counting
- Include updates to “product data” to support allowance allocation
- Add minor clarifying revisions for industrial facilities and suppliers
Electric Power Entities

- Revised default emission factor (0.428), applies now to all unspecified imports
- Specified new equation to clarify compliance obligation calculation
- Defined new terms to specify delivery tracking, treatment of VRR, simultaneous exchanges
- Provided specific options to support claims to specified imports
- Allowed retail providers who report only retail sales to opt out of verification.
Fuel Suppliers
Transportation Fuels

- Specified that biomass-derived fuel producers and enterers no longer required to report
- Clarified that reporting is limited to blendstocks, distillate fuel oils, biomass based fuels
- Require that enterers who deliver to terminals report recipient to help track double counting
- Require ethanol reporting without regard to the denaturant
Fuel Suppliers

Natural Gas and LPG

• Require calculations on MMBtu basis

• Specify that system deliveries are accounted for by the LDC

• Allow use of specified emission factors for non-pipeline quality natural gas not exceeding 3 percent of total emissions
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Questions and Discussion
Mandatory Reporting Regulation

• General Provisions
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• Industrial Facilities
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Cap-and-Trade Regulation

• Proposed regulation considered by the Board in December 2010
  • http://www.arb.ca.gov/regact/2010/capandtrade10/capandtrade10.htm

• Discussion draft reflects staff’s proposed language to implement Board direction
  • http://www.arb.ca.gov/cc/capandtrade/capandtrade.htm

• “15-day” language changes scheduled for release later this month
Cap-and-Trade Program Timeline

• Initiate program in 2012
• Allocation, auction, trading, and other activities begin in 2012 before the start of the compliance obligation and the first compliance period
• Begin compliance obligation and first compliance period in 2013
Activities in 2012

• Tracking system
• Monitoring program
• Auction and financial services
• Explore possible new offset protocols
• Coordinate possible linkage with WCI partners when WCI partners’ programs are available
2012 Auctions

• Planned for August and November
• Will include vintage 2013 and 2015 allowances
• One-sixth of allowances allocated to the IOU Limited Use Holding Accounts must be consigned to each auction
• Consignment and forward sale is entire auction supply for 2012
Compliance Periods

• First: 2013, 2014
• Second: 2015, 2016, 2017
• Third: 2018, 2019, 2020
• Annual and triennial surrenders are on Nov 1
• No annual surrender in 2015, 2018, 2021, etc.
Compliance Obligations

• Cap stringency unchanged
• Excess emissions due within 3 days after the next auction or reserve sale, whichever comes last
• Under-reporting discovered after surrender:
  • One-to-one make up with a 6-month grace period
• Penalty Structure
  • Additional penalties for fraud or deception
Market Operations and Timing
Major Changes

• Clarified calculation of limited exemption to holding limit

• Increased share of each future vintage allocated to advance auction from 2% to 10%
  • Purchase limit: 25% of forward auction
Allowance Allocation Topics

• Electricity Sector Allocation
• Industrial Sector Allocation
  • Product benchmarks included in discussion draft
Allowance Allocation

Major Changes

• Specifies allocation by utility for each year
• Includes benchmarks for 28 products used as basis for industrial free allocation
  • Considering 90% of sector average or “best in industry” if no CA firm has an emissions intensity ≤ 90% of average
• “True-up” allocation for actual production
• Seeking comment on confidentiality of firm-level allocation
Electricity Sector Topics

- Electricity sector compliance obligation
- Voluntary renewable set-aside program
Electricity Sector Major Changes

- Added definition and prohibition of resource shuffling
- Described criteria for using facility-specific emission factors
- Defined direct delivery requirements for specified sources of electricity
- Recognized practice of “firming and shaping” variable renewables
- Allowed netting of “qualified exports” against imports’ compliance obligation
- Added voluntary renewable set-aside program
Offsets and Protocols

Major Changes to Offsets

• Reporting and verification cycle
• Record retention requirements
• Conflict of interest
• Forestry offset reversals
• Offset invalidation
  • Time limit and due process provision added
• Early action offset credits recognition and project transition
Offsets and Protocols

Major Changes to Protocols

• For all protocols:
  • Minor changes to ensure consistency between the regulation and protocols
  • Added provisions regarding the development of offset projects on tribal lands
• ODS – added CFC 113, other technical modifications
• Forestry – verification related changes
Other Topics

Adaptive Management

• Focused on potential localized air quality impacts
• Evaluate information from several programs and sources: MRR, Audit Reg, local permitting, monitors
• Review for disproportionate impacts to low-income communities or increases in criteria or toxics as result of cap-and-trade
• Public process for implementation and information sharing
• Will take action in consultation with stakeholders if unanticipated emissions impacts are discovered
• Seeking public input on metrics, triggers, and actions
Other Topics

Energy Audit and Co-Benefits

• Regulation requires largest sources to audit and document energy consumption and emissions, identifies potential energy efficiency and emission reduction opportunities

• Reports due December 2011

• Evaluating how to require identified low cost on-site reductions

• Seeking public input on criteria and thresholds that would require action, and mechanism
Next Steps

• 1\textsuperscript{st} 15-day language package (end of July)
• Board update on AB 32 progress (Aug 24)
• Potential 2\textsuperscript{nd} 15-day language (end of Aug)
• Board hearing on the updated Cap-and-Trade (Oct 21)
• Final Statement of Reasons due to OAL (Oct 28)
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