

Discussion Workshop for Cap-and-Trade Regulation 2016 Amendments

California Air Resources Board
October 2, 2015

Workshop Materials and Submitting Comments

- This presentation is posted at:
<http://www.arb.ca.gov/cc/capandtrade/meetings/meetings.htm>
- Written comments may be submitted until 5 pm (PDT) on Monday, October 19, 2015:
http://www.arb.ca.gov/lispub/comm2/bcsubform.php?listname=ct2016amendments-ws&comm_period=1
- During this workshop, e-mail questions to:
auditorium@calepa.ca.gov

Agenda

- Morning presentation (9:00 am — 11:30 am)
 - Policy update and Cap-and-Trade Program update
 - Scope and schedule for Cap-and-Trade Regulation amendments
 - Schedule for Climate Change Scoping Plan Update and plan for compliance with U.S. Environmental Protection Agency (U.S. EPA) Clean Power Plan
 - Opportunities for Cap-and-Trade Program efficiency
 - Streamlining for offsets, auctions, and information management
- Afternoon (1:00 pm — 5:00 pm)
 - Presentation and discussion of cost-containment and market data publication
 - Presentation and discussion of Clean Power Plan

Policy Update

- Goals put forth in the Governor's inaugural address:
 - 50% renewable electricity generation by 2030
 - 50% reduction in petroleum use by 2030
 - Double energy efficiency of existing buildings and make heating fuels cleaner
 - Reduce emissions of short-lived climate pollutants
 - Ensure natural lands are a carbon sink, not a source
- Governor's Executive Order B-30-15:
 - 2030 GHG emissions 40% below 1990 levels

Cap-and-Trade Program Update

- Program began January 2012
- Linked with Québec January 2014
- First annual compliance event November 2014
 - 100% of covered entities surrendered sufficient compliance instruments
- Phased in transportation fuel and natural gas suppliers in January 2015
- 12 auctions held to date
- Ten reserve sales scheduled to date, but none held
- First Compliance Period compliance event will be November 2015
 - 70% of 2013 covered emissions and 100% of 2014 covered emissions

Adaptive Management Program

- Monitor for potential adverse localized air quality impacts from implementation of Cap-and-Trade Program
- Track emissions at both individual facilities and clusters of facilities
- Identify potential adverse impacts
- Develop recommendations to respond to any adverse impacts that are identified
- December Board Update

Rulemaking Objectives

- Extend the Cap-and-Trade Program
- Improve Program efficiency where possible
 - Streamline Regulation requirements and implementation
 - Remove unnecessary requirements
- Reflect latest data and information
 - Leakage study results
 - Global warming potentials
 - Experience from other emissions trading programs
- Maintain environmental and market integrity

Potential Scope of 2016 Amendments for Third Compliance Period

- Streamlining offsets program
- Streamlining auctions
- Streamlining management of information
- Incorporate sector-based offset credits into Program
- Incorporate results of leakage studies for third compliance period allowance allocation
- Linkage with Ontario, Canada

Potential Scope of 2016 Amendments for Post-2020 Program

- Discussed in the context of the Scoping Plan Update
 - Previous Scoping Plan Update discusses Cap-and-Trade Program role for meeting a midterm target
- Post-2020 caps on emissions and program scope
- Changes to cost-containment and market oversight provisions
- Program role for compliance with U.S. EPA Clean Power Plan
- Allowance allocation
- Continue linkage with Québec and Ontario

2030 Statewide Target and Potential Post-2020 Cap

- 2030 statewide emissions target
 - 40% below 1990 levels
 - ~ 260 MMT CO₂e
- Potential Cap-and-Trade Program annual cap for 2030
 - Between 78 and 83% of statewide target
 - 203 to 216 MMT CO₂e
- 2021 emissions cap
 - Staff is evaluating options for setting the 2021 cap

Tentative Schedule for Cap-and-Trade Regulation Amendment Process

Date	Event
October 2015 to May 2016	Public workshops on specific topics
May 2016	45-day Regulation and Initial Statement of Reasons released
June 2016	First Board hearing
March 2017	Second Board hearing
May 2017	Final Regulation and Final Statement of Reasons to Office of Administrative Law
October 2017	Adopted Regulation becomes effective

Tentative Cap-and-Trade Workshop Schedule

Date	Workshop Topic
October 28, 2015	Sector-based offsets
November 9, 2015	Program linkage
December 10, 2015	Cap setting and Cost Containment
January 2016	Leakage study results
February 2016	Allowance allocation
Spring 2016	Further workshops as needed

Tentative Schedule for Compliance with U.S. EPA Clean Power Plan

Date	Event
November 10, 2015	Workshop on modeling approach
November 19, 2015	Informational update to Board
December 10, 2015	Workshop on permitting and backstop design
Spring 2016	Further workshops as needed
June 2016	Draft compliance plan released; comment period follows
July 2016	First Board hearing
September 2016	Draft Plan or Initial Submission forwarded to U.S. EPA
Spring 2017	Second Board hearing; U.S. EPA Decision

Opportunities for Cap-and-Trade Program Efficiency: Streamlining Offsets

Potential Opportunities for Streamlining Offsets

- ARB staff has heard stakeholder concern about the timeframe for issuing ARB offset credits
- ARB is looking for opportunities to shorten the timeframe from the end of the reporting period to ARB offset credit issuance
- ARB staff is also looking to provide more predictability for the ARB offset credit issuance process
- The Regulation and Compliance Offset Protocols are legal requirements that must be followed

Potential Opportunities for Streamlining Offsets

- ARB staff would like to solicit stakeholder input on ways to streamline ARB offset credit issuance
- Examine the following areas for opportunities for improvement:
 - ARB staff communication with project operators, verifiers and Offset Project Registries
 - ARB staff project review process
 - ARB staff observations of things that will make project review more streamlined and predictable (lessons learned)
 - ARB offset credit issuance timeline

Offsets Program Communication

- ARB staff would like to solicit stakeholder input on ways to streamline ARB offset credit issuance
- Examine the following areas for opportunities for improvement:
 - ARB staff communication with project operators, verifiers and Offset Project Registries
 - ARB staff project review process
 - ARB staff observations of things that will make project review more streamlined and predictable (lessons learned)
 - ARB offset credit issuance timeline

ARB Project Review

- ARB staff confirms that verification meets the standards in the Regulation/protocol
 - Verification must meet reasonable assurance standards
- Projects are returned to the verifier for nonconformances regardless of size
- Project operators and verifiers should fix issues before submitting to ARB
- Review process depends on completeness and conformity of the project

Lessons Learned

- Compliance Offset Protocols are legal requirements
- Deviations from the Compliance Offset Protocol
 - Discuss uncertainties with ARB prior to submitting Offset Project Data Report
 - Projects that deviate from the protocol are returned to the verifier for revisions
- Regulatory Conformance
 - Provide all information on any violations that occur at project
- Timely responses from project operators and verifiers to ARB questions
- Maintain well-organized project documentation

Compliance Offset Credit Issuance Timeline

- Maximum time periods in the Regulation:



- ARB requests suggestions for streamlining issuance timeline, with the following considerations:
 - Submittal of Offset Project Data Report & Verification are at Offset Project Operator's/Verifier's discretion
 - ARB needs adequate time to review projects

Opportunities for Cap-and-Trade Program Efficiency: Streamlining Auctions

Opportunities for Streamlining Auctions

- Reduce days between Auction Notice posting and auction
- Reduce days between application deadline and bid guarantee due date
- Remove notification of intent to bid requirement
- Streamline financial settlement
 - Reduce bid guarantee options to ensure cash payment upon certification of auction
 - Allow maintenance of bid guarantees; remove requirement to return bid guarantees (non-cash)

Current Pre-Auction Timeline

Activities	Auction Time Period and Activities
Auction consignment deadline	75 days prior to auction - Section 95910(d)(4)
Auction notice posted and application period opens	60 days prior to auction - Section 95912(c)
Deadline to complete auction participant application or notification of intent to bid Application period closes	30 days prior to auction - Auction participant application - Section 95912(d)(4) Notification of intent to bid - Section 95912(f)
All bid guarantees due to Financial Services Administrator	12 days prior to auction - Section 95910(i) • Time required after close of application period to establish financial services accounts for new applicants
Auction held	As provided in Appendix C of Regulation

Current Post-Auction Timeline

Activities	Auction Time Period and Activities
Public notice of auction results released	<p>~ 5 business days after auction</p> <p>Time required to:</p> <ul style="list-style-type: none"> • Confirm auction in conformance with Regulation • Preparation of results • Coordinate results approval with Québec
Financial settlement complete Allowances transferred	<p>~ 19 business days after auction</p> <p>Time required to:</p> <ul style="list-style-type: none"> • Financial settlement <ul style="list-style-type: none"> - Payment in cash (5 days; 7 calendar days) - Draw on bid guarantees for non payment in cash (3 days) - Return of bid guarantees (2 days) - Coordinate results approval with Québec - Complete payment of proceeds (2 days) • Prepare and approve transfers (2 days)

Challenges to Streamlining Auctions

- Potential overlapping of requirements between auctions (*e.g.*, consignment deadline)
- Potential denial of auction participation due to time required for other activities (*e.g.*, changes in entity registration and corporate association reporting)
- Streamlining may require additional cost and time to further automate auction and financial services

Opportunities for Cap-and-Trade Program Efficiency: Streamlining Information Management

Opportunities for Streamlining Information Management

- Regulation requires information to be submitted to ARB, including:
 - User registration
 - Entity registration (CITSS Account Application)
 - Disclosure of corporate associations, change of ownership, designation of account representatives and agents, disclosure of consultants and advisors, etc.
 - Publicly owned electrical distribution utilities and electrical cooperatives allowance allocation to compliance account or limited use holding account
 - Reporting on use of electrical distribution utility allocated allowance value
 - Transfer request information

Current Information Management

Reported Information	Current Information Management Method
User Registration (Know Your Customer Requirements) Section 95834 <ol style="list-style-type: none">1. Name2. Primary residence and mailing address3. Evidence of primary residence4. Identity card with expiration date and photo5. Date of birth6. Employer name, address, and contact information7. Proof of open bank account in United States8. Disclosure of any felony conviction within five years	<ol style="list-style-type: none">1. CITSS*2. CITSS3. Notarized hardcopy4. Notarized hardcopy5. CITSS6. Hardcopy7. Notarized hardcopy8. Hardcopy

* Throughout these slides, when “CITSS” is listed as the Current Information Management Method, it indicates that information is submitted in, and can be updated in, the Compliance Instrument Tracking System Service (CITSS); some changes require signed attestation.

Current Information Management

Reported Information	Current Information Management Method
<p>Entity Registration (CITSS Account Application) Section 95830(c)</p> <ol style="list-style-type: none"> 1. Name (legal and operating) 2. Physical and mailing address 3. Contact information 4. Organization type and incorporation 5. Names and addresses of directors and officers 6. Names and contact information of persons controlling over 10% of voting rights 7. Identifying information (EIN, business number, DUNS) 8. Names and contact information of persons with market position, Cap-and-Trade Consultants and Advisors, Agent of Service 	<ol style="list-style-type: none"> 1. CITSS 2. CITSS 3. CITSS 4. CITSS 5. Signed hardcopy 6. Signed hardcopy 7. CITSS 8. Signed hardcopy

Current Information Management

Reported Information	Current Information Management Method
<p>Disclosure of Corporate Associations Section 95830(c) and Section 95833</p> <ol style="list-style-type: none">1. Direct and indirect corporate associations<ul style="list-style-type: none">• Information to identify associated entities• Type of corporate association• Description of association (e.g., parent, sister, subsidiary)• Confirmation of opt out decisions and allocation of holding limit and purchase limit shares	<ol style="list-style-type: none">1. Signed hardcopy

Current Information Management

Reported Information	Current Information Management Method
<p>Change of Ownership: Section 95830(i)</p> <ol style="list-style-type: none"> 1. Description of acquisition and effective date 2. Buying and selling entity name (legal and operating) 3. Management of purchased facilities 	<ol style="list-style-type: none"> 1. Signed hardcopy 2. Signed hardcopy 3. CITSS & signed hardcopy
<p>Designation of Account Representatives and Agents: Section 95832</p> <p>Designation of Primary/Alternate Account Representative(s) and Account Viewing Agents</p>	<p>CITSS</p>

Current Information Management

Reported Information	Current Information Management Method
<p>Publicly Owned Electrical Distribution Utilities (EDU) and Electrical Cooperatives: Section 95892(b)</p> <ul style="list-style-type: none"> • Allowance allocation to Compliance Account or Limited Use Holding Account 	Signed hardcopy and Excel spreadsheet
<p>Reporting on Use of EDU Use of Allocated Allowance Value: Section 95892(e)</p> <ul style="list-style-type: none"> • Report to Executive Officer 	Signed hardcopy and Excel spreadsheet
<p>Transfer Request Information: Section 95921(b)</p> <ul style="list-style-type: none"> • Transfer request information 	CITSS
<p>Auction Application Attestation Disclosure: Section 95912(d)(4)(E)</p> <ul style="list-style-type: none"> • Required for participation in auctions • Information on registered entity and corporate associations in related markets 	Signed hardcopy

Approaches to Streamlining Information Management

- Allow electronic reporting and signature of required information (including attestations). Examples include:
 - Develop online submission for entity information not currently reported in CITSS to replace hardcopy forms
 - Develop online submission for publicly owned electrical distribution utilities' and electrical cooperatives' designation of allowance allocation to Compliance Account or Limited Use Holding Account

Potential Regulatory Changes for Streamlining Information Management

- Combine sections referencing the timing and content of disclosure updates for corporate associations
 - Consolidate corporate association disclosure requirements in Sections 95830(f), 95833(e), and 95912(d) in a single regulation section
 - Modify timeframes for updating corporate association changes to increase consistency

Objectives for Acquiring Market Information

- Verification of individuals and entities registering and participating in the market to deter account fraud
- Reduce opportunities for collusion through
 - Surveillance of compliance instrument holdings and transfers by related entities
 - Identifying relationships among entities across markets and commodities
 - Monitoring individuals and entities providing consulting and advisory services
 - Prohibiting information disclosures of auction activities
- Augmenting market information by publishing aggregated Holding and Compliance Account balances

How Does ARB Evaluate Transfer Request Data?

- Staff evaluate market relationships among entities by examining agreement start/end dates, pricing method, and whether agreements cover multiple transfers or products
- Interpretation of price may depend on form of contract
 - Forward and contract prices may reflect market conditions at the time contract is signed and not when delivered
 - Price of instruments in bundled sales may reflect bargaining over other products or services in the bundle
 - Prices may reflect new information entering the market (e.g., spot trade) or past events (e.g., setting price as auction settlement price plus a margin)

How Does Market Monitoring Staff Interpret Transfer Price Data?

- Are there trade prices that differ from prices for contemporaneous trades?
 - Staff must understand type of transaction and relationship between traders to compare price with other transfers
 - Distinguish between unrepresentative prices and changes in market conditions
- How do prices respond to market news such as auction results, publication of annual emissions data?

How Does Market Monitoring Staff Evaluate Holdings?

- Objective: Does the share of market supply held by entities and corporate associates suggest the potential exercise of market power?
- Pivotal Supplier Test
 - Subtract compliance obligation from holdings to determine if an entity is net long or short
 - Assume withholding by largest net long holder and test whether market clears without their supply (entity is “pivotal supplier”)
 - Sequentially add in next largest net long suppliers to test if group is “jointly pivotal”
- Cumulative Market Share (concentration ratios) evaluate how concentrated are holdings available to net short entities

Questions on Program Efficiencies

- Does current auction administration and frequency ensure effective price discovery?
- Does current information ensure market integrity?
- Is any collected information unnecessary?
 - ARB needs to maintain market integrity, conduct market monitoring, and assess market power
- Should ARB release more detailed market supply measures?
 - Entity residual supply measures with identities masked
- What additional public reporting would be useful?
 - Should ARB publish a price index?
 - Should ARB publish price and quantity for each transfer with identities masked?

Additional Information

- California Cap-and-Trade Program webpage:

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

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Climate Change Program Evaluation Branch
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Comments and Questions

Lunch Break

Afternoon schedule (begin 1 pm):

Cost-Containment and Public Market Data
Compliance with U.S. EPA Clean Power Plan