

## **CHAPTER 3: WHAT DOES MY COMPANY NEED TO DO TO COMPLY WITH THE CAP-AND-TRADE REGULATION?**

### **3.1 Register with the Cap-and-Trade Program**

The Compliance Instrument Tracking System Service (CITSS) is a market tracking system that supports the implementation of the greenhouse gas (GHG) Cap-and-Trade Program for California and other jurisdictions. CITSS provides accounts for market participants to hold and retire compliance instruments and to conduct transactions of compliance instruments with other account holders.

CITSS is used to:

- Register entities participating in the California Cap-and-Trade Program;
- Issue allowances and compliance offsets;
- Track the ownership of compliance instruments;
- Enable and record compliance instrument transfers;
- Facilitate emissions compliance; and
- Support market oversight.

Each entity participating in the California Cap-and-Trade Program must register with CARB through CITSS. Table 3.1 below provides the applicable registration deadlines. The Regulation states that only one registration is allowed per entity.

<b>Table 3.1 Registration Deadlines</b>	
<b>Type of Entity</b>	<b>Registration Deadline</b>
Entities not covered as of January 1, 2013	Within 30 days of MRR <sup>1</sup> reporting deadline
Entities exceeding inclusion thresholds in section 95812 of the Cap-and-Trade Regulation for data years 2008-2011	Within 30 calendar days of September 1, 2012
Opt-in covered entity	By March 1 of the calendar year prior to the first year in which voluntary election for compliance obligation is made
Voluntarily associated entity intending to hold CARB-issued compliance instruments	Prior to acquisition of compliance instruments

<sup>1</sup> The CARB Regulation for the Regulation for the Mandatory Reporting of Greenhouse Gas Emissions (title 17, California Code of Regulations, Section 95100 et seq.)

Instructions for registration and additional guidance can be accessed at the CITSS webpage:

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

Guidance on corporate associations, consultants or advisors, and knowledgeable employees can be accessed at the following link:

[https://www.arb.ca.gov/cc/capandtrade/guidance/guidance31a\\_corp\\_assn\\_feb\\_2015.pdf](https://www.arb.ca.gov/cc/capandtrade/guidance/guidance31a_corp_assn_feb_2015.pdf)

## **3.2 Report and Verify Your Greenhouse Gas Emissions, Product Output and Energy Data**

The CARB Regulation for the Mandatory Reporting of Greenhouse Gas Emissions (title 17, California Code of Regulations, Section 95100 et seq.) (MRR) includes specific requirements for greenhouse gas reporting and verification from specific types of facilities, fuel suppliers, and retail electricity providers.

All covered entities under the Cap-and-Trade Regulation are required to report and verify their emissions pursuant to MRR. Examples of types of information covered entities are required to report include, as applicable:

- Gallons of transportation fuels supplied or imported;
- Heat content of natural gas delivered to end users (excluding electricity generating facilities) from natural gas utilities and intrastate pipelines in MMBtu;
- Heat content of natural gas received from interstate pipelines in MMBtu;
- Megawatt hours of electricity delivered to the California transmission and distribution system; and/or
- Combustion, process, and fugitive emissions.

All new and existing data and information reported must be certified to be true, accurate, and complete under penalty of perjury, and be submitted via the Cal e-GGRT reporting system.

The CARB Mandatory Greenhouse Gas Emissions Reporting website has additional details and guidance: <http://www.arb.ca.gov/cc/reporting/ghg-rep/ghg-rep.htm>

## **3.3 Compliance Obligation**

### ***3.3.1 What is a compliance obligation?***

A compliance obligation is the quantity of verified reported emissions or assigned emissions for which an entity must submit compliance instruments to CARB. It is calculated based on the data required to be reported and verified pursuant to MRR.

Each covered entity must surrender valid compliance instruments to fill its compliance obligation. Compliance requirements are detailed in section 3.6 of this document.

### 3.4 What types of compliance instruments can be used to fulfill my compliance obligation?

Sections 95820 and 95821 of the Cap-and-Trade Regulation specify the types of compliance instruments that may be used to meet a compliance obligation. The compliance instruments include:

- 1) California Greenhouse Gas Emissions Allowances issued by CARB;
- 2) Allowances issued by a program approved by CARB pursuant to section 95941 (e.g., a linked jurisdiction such as Québec);
- 3) Offset Credits issued by CARB, subject to the quantitative usage limits presented in the table 3.2 below; and
- 4) Offset credits issued by a program approved by CARB pursuant to section 95941 (e.g., a linked jurisdiction such as Québec) (still subject to the limits in Table 3.2).

Table 3.2 Offset Usage Limits			
Emission Years	2013 – 2020	2021 – 2025	2026 - 2030
Offset Usage Limit	8%	4%*	6%**

\* With respect to the offset usage limits applicable for emissions from January 1, 2021, to December 31, 2025, inclusive, a total of four percent of a covered entity's compliance obligation may be met by surrendering offset credits. No more than one-half of this quantitative usage limit may be sourced from projects that do not provide direct environmental benefits in the state.

\*\* With respect to the offset usage limits applicable for emissions from January 1, 2026, to December 31, 2030, inclusive, a total of six percent of a covered entity's compliance obligation may be met by surrendering offset credits. No more than one-half of this quantitative usage limit may be sourced from projects that do not provide direct environmental benefits in the state.

### 3.5 How do I know how many allowances will be freely allocated to my facility?

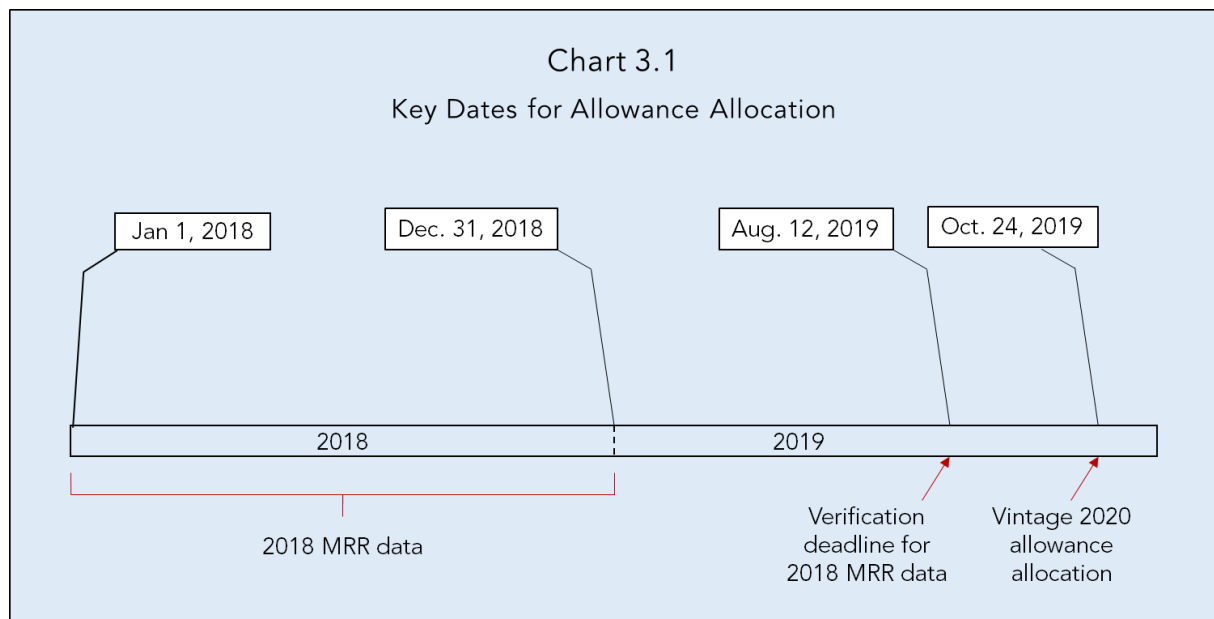
Some covered entities and opt-in entities operating in some industrial sectors, universities and public service facilities, waste-to-energy facilities, legacy contract

generators, electrical distribution utilities (EDUs), natural gas suppliers (NG suppliers), and public wholesale water agencies may be eligible for direct allocation of California GHG allowances if they have complied with MRR requirements. For eligible industrial sectors, this requirement includes obtaining positive or qualified positive product or emissions data verification statements. For more details on allocations, see sections 95891-95895 of the Cap-and-Trade Regulation; more information can also be found at: <http://www.arb.ca.gov/cc/capandtrade/allowanceallocation/allowanceallocation.htm>

### 3.5.1 Timing of allowance allocation

Allocation of allowances occurs in the calendar year preceding the vintage year of the allowances to be distributed, and is informed by MRR reports from two calendar years preceding the vintage year.

As an example, Chart 3.1 depicts the allocation of vintage 2020 allowances. The allocation of vintage 2020 allowances will occur by October 24, 2019 and will be informed by MRR reports from the 2018 data year. Allowances are allocated on this same schedule each year.



### 3.6 What are important compliance surrender dates?

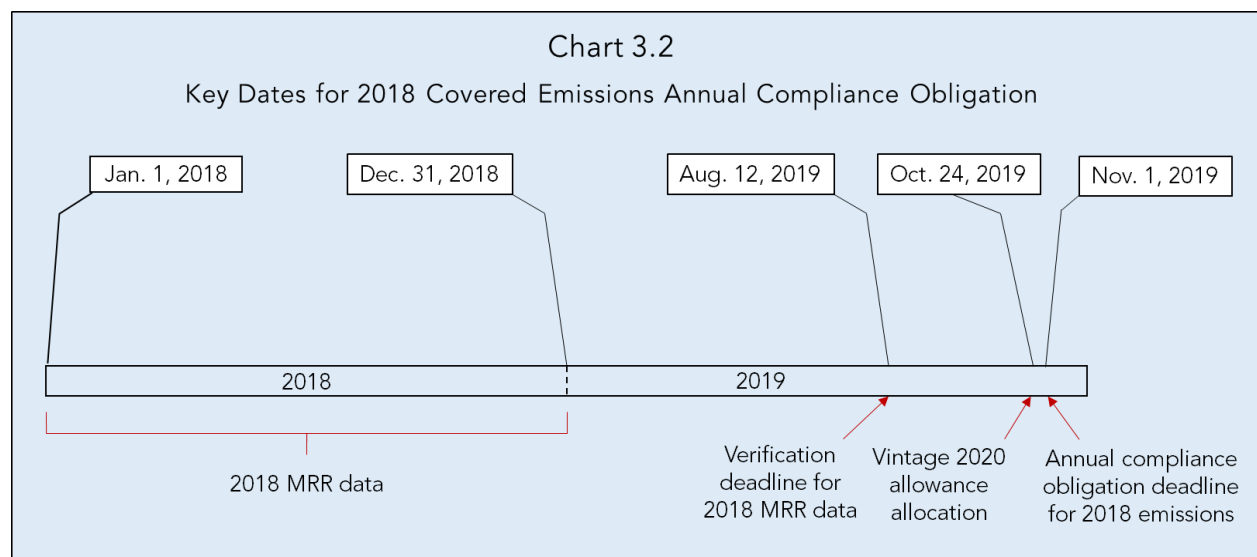
#### 3.6.1 Compliance periods

Table 3.3 summarizes the start and end dates of each compliance period

Table 3.3 Compliance Periods (2013-2032)		
Compliance Period	Start	End
First	January 1, 2013	December 31, 2014
Second	January 1, 2015	December 31, 2017
Third	January 1, 2018	December 31, 2020
Fourth	January 1, 2021	December 31, 2023
Fifth	January 1, 2024	December 31, 2026
Sixth	January 1, 2027	December 31, 2029
Seventh	January 1, 2030	December 31, 2032

#### 3.6.2 Annual compliance obligations

Section 95855(b) of the Cap-and-Trade Regulation requires covered entities to submit 30 percent of their compliance obligation for the previous year's covered emissions within the current compliance period. As shown in Chart 3.2, the compliance surrender date for 2018 emissions is November 1, 2019. At that time, entities will need to provide CARB with compliance instruments (allowances and/or offsets) to cover 30 percent of their covered emissions for 2018.



Section 95856 of the Cap-and-Trade Regulation states, “To fulfill a compliance obligation, a compliance instrument ... must be issued from an allowance budget year within or before the year for which an annual compliance obligation is calculated or the last year of a compliance period for which a full compliance period compliance obligation is calculated.” An entity may bank allowances from previous vintage years, but may not borrow from future vintage years to meet a compliance obligation.

Table 3.4 lists which vintage year allowances may be used to meet an annual or full compliance period obligation. There are no restrictions on which vintage year of offsets are used to meet a compliance obligation. Please note, for 2013 through 2020 emissions, offsets can only be used to meet up to eight percent of a compliance obligation in each compliance period.

<b>Table 3.4 Eligible Allowance Vintages for Annual and Full Compliance Period Obligations</b>			
<b>First Compliance Period</b>			
<b>Covered Emissions Year</b>	<b>Compliance Obligation Due Date</b>	<b>Percent of Compliance Obligation Due</b>	<b>Eligible Vintages of Allowances</b>
<b>2013</b>	November 1, 2014	30% of 2013 covered emissions	Vintage 2013 only
<b>2014</b>	November 1, 2015	70% of 2013 and 100% of 2014 covered emissions	Vintages 2013 and 2014, any combination
<b>Second Compliance Period</b>			
<b>2015</b>	November 1, 2016	30% of 2015 covered emissions	Vintages 2013-2015, any combination
<b>2016</b>	November 1, 2017	30% of 2016 covered emissions	Vintages 2013-2016, any combination
<b>2017</b>	November 1, 2018	70% of 2015 and 2016, and 100% of 2017 covered emissions	Vintages 2013-2017, any combination
<b>Third Compliance Period</b>			
<b>2018</b>	November 1, 2019	30% of 2018 covered emissions	Vintages 2013-2018, any combination
<b>2019</b>	November 1, 2020	30% of 2019 covered emissions	Vintages 2013- 2019, any combination
<b>2020</b>	November 1, 2021	70% of 2018 and 2019, and 100% of 2020 covered emissions	Vintages 2013-2020, any combination

In addition to the eligible allowance vintages listed above, an entity can use a limited number of future vintage allowances if the entity has true-up quantity. True-up quantity is assigned by CARB, and true-up allowances are allocated to reflect changes in emissions due to a change in production or allocation not properly accounted for in prior allocations. If a true-up quantity is assigned, future vintage allowances in the amount of the true-up quantity can be used for a compliance obligation. For example, if true-up

quantity is assigned, vintage 2022 allowances could be used for the 2018-2020 full compliance obligation. True-up quantity is specific to those entities eligible for such true-up; it cannot be transferred to any other entity. For more details, see section 95856 of the Cap-and-Trade Regulation.

Example 3.1 demonstrates a selection of options for a hypothetical entity to comply with its annual compliance obligation. The options include surrender of both allowances and offsets; however, the options listed are not exhaustive.

### Example 3.1

For this example, assume Entity A has reported its 2018 emissions pursuant to the MRR reporting deadline and has obtained verification services for its emissions data report. Based on its verified 2018 MRR report, Entity A has a compliance obligation of 100,000 MTCO<sub>2e</sub>. In 2019, Entity A must surrender 30%, or 30,000 valid compliance instruments. Compliance options include, but are not limited, to the following examples:

#### Option 1

Surrender Vintage 2018 allowances

2018 compliance obligation	100,000 MTCO <sub>2e</sub>
<u>Vintage 2018 allowances surrendered in 2019</u>	<u>-30,000 MTCO<sub>2e</sub></u>
Balance of 2018 annual compliance obligation due in 2021	70,000 MTCO <sub>2e</sub>

#### Option 2

Surrender Vintage 2018 allowances and eligible offsets credits

2018 compliance obligation	100,000 MTCO <sub>2e</sub>
Eligible offsets surrendered in 2019 (8% total covered emissions)	-8,000 MTCO <sub>2e</sub>
<u>Vintage 2018 allowances surrendered in 2019</u>	<u>-22,000 MTCO<sub>2e</sub></u>
Balance of 2018 annual compliance obligation due in 2021	70,000 MTCO <sub>2e</sub>

Note: The total offset usage limit that may be surrendered (8% for emissions from 2018–2020, 4% for emissions from 2021–2025, and 6% for emissions from 2026–2030) is calculated against the annual covered emissions (not 30% of those covered emissions). Offsets cannot exceed the offset usage limit for the compliance period.

### 3.6.3 Full compliance period obligations

For years 2015, 2018, and 2021, during which compliance obligations for covered emissions from 2013–2014, 2015–2017, and 2018–2020, respectively, must be met, there is no annual compliance obligation, only a full compliance period compliance

obligation because it is the end of the compliance period. For more details, see section 95856 of the Cap-and-Trade Regulation.

Example 3.2 demonstrates a non-exhaustive list of options for an entity complying with its full compliance period compliance obligation.<sup>2</sup>

### Example 3.2

Entity A's compliance obligation is 100,000 MT CO<sub>2e</sub> in each year of the compliance period (2018, 2019 and 2020).

In 2021, Entity A must fulfill its full compliance period compliance obligation by surrendering vintage 2020 compliance instruments or earlier to cover its 2020 compliance obligation and the balance of its 2018 and 2019 compliance obligations. Compliance options include, but are not limited to:

#### Option 1

Surrender Vintage 2020 and earlier allowances

2018 annual compliance obligation	100,000 MT CO <sub>2e</sub>
Vintage 2018 and earlier allowances surrendered in 2019	-30,000 MT CO <sub>2e</sub>
2019 annual compliance obligation	100,000 MT CO <sub>2e</sub>
Vintage 2019 and earlier allowances surrendered in 2020	-30,000 MT CO <sub>2e</sub>
<u>2020 compliance obligation</u>	<u>100,000 MT CO<sub>2e</sub></u>
Balance of 2018-2020 compliance obligation	240,000 MT CO <sub>2e</sub>
Vintage 2018 allowances surrendered in 2021	-100,000 MT CO <sub>2e</sub>
Vintage 2019 allowances surrendered in 2021	-40,000 MT CO <sub>2e</sub>
<u>Vintage 2020 allowances surrendered in 2021</u>	<u>-100,000 MT CO<sub>2e</sub></u>
Balance of 2018-2020 compliance obligation	0 MT CO <sub>2e</sub>

#### Option 2

Surrender Vintage 2020 and earlier allowances and eligible offset credits

2018 annual compliance obligation	100,000 MT CO <sub>2e</sub>
Vintage 2018 and earlier allowances surrendered in 2019	-30,000 MT CO <sub>2e</sub>

<sup>2</sup> See also [https://www.arb.ca.gov/cc/capandtrade/markettrackingsystem/citss\\_compliance\\_2018.pdf](https://www.arb.ca.gov/cc/capandtrade/markettrackingsystem/citss_compliance_2018.pdf)



2019 annual compliance obligation	100,000 MT CO <sub>2e</sub>
Vintage 2019 and earlier allowances surrendered in 2020	-30,000 MT CO <sub>2e</sub>
<u>2020 compliance obligation</u>	<u>100,000 MT CO<sub>2e</sub></u>
Balance of 2018-2020 compliance obligation	240,000 MT CO <sub>2e</sub>
Eligible offset credits surrendered in 2021	-24,000 MT CO <sub>2e</sub>
Vintage 2018 allowances surrendered in 2021	0 MT CO <sub>2e</sub>
<u>Vintage 2019 &amp; 2020 allowances surrendered in 2021</u>	<u>-216,000 MT CO<sub>2e</sub></u>
Balance of 2018-2020 compliance obligation	0 MT CO <sub>2e</sub>

Note: Offsets cannot exceed the offset usage limit for the compliance period. This limit is 8% for emissions from 2018–2020, 4% for emissions from 2021– 2025, and 6% for emissions from 2026–2030.

### 3.7 Retention of Records

Each entity must retain all of the following records for at least 10 consecutive years:

- Copies of all data and reports submitted;
- Records used to calculate a compliance obligation;
- Emissions data and product data verification statements; and
- Detailed verification reports as required.

Upon receiving a written request from CARB, entities must provide these records to CARB within 20 calendar days. See sections 95850 of the Cap-and-Trade Regulation and sections 95105, 95103(f), and section 95131 of MRR for more details.

For offset projects, information must be retained for a minimum of 15 years following the issuance of CARB offset credits. Entities must provide records within 10 calendar days of receiving a written request from CARB. See section 95976 of the Cap-and-Trade Regulation for details of specific information to be retained.

Offset project registries must retain documentation related to listed offset projects for a minimum of 15 years.

### 3.8 Additional Requirements for Electric Distribution Utilities

Additional guidance on use and reporting of allocated allowance value and the CAISO sales prohibition is available for EDUs at the EDU and NG supplier webpage:

<https://www.arb.ca.gov/cc/capandtrade/allowanceallocation/EDU-NG-allowancedistribution.htm>

### **3.8.1 Specific Guidance for Electricity Importers**

Is there an easy to use formula so that I am able to determine my compliance obligation?

The equation to calculate a compliance obligation that results from covered emissions is in section 95852(b) of the Cap-and-Trade Regulation. This equation is consistent with how a covered entity reports pursuant to MRR in Cal e-GGRT. Each term contained in the compliance equation is calculated according to the provisions in section 95111(b) of MRR.

How do I receive a CARB emission factor for electricity delivered from a specified source?

In order to receive a CARB facility-specific emission factor, importers must directly deliver the electricity to California, as defined in section 95111(g) of MRR. Additionally, the importer must be the facility operator, or have ownership or a contract in place for the imported electricity. These requirements are contained in section 95852(b)(3) of the Cap-and-Trade Regulation. Facilities must be registered according to section 95111(g) of MRR to be claimed as a specified source. Refer to the MRR GHG reporting webpage for additional details: <http://www.arb.ca.gov/cc/reporting/ghg-rep/ghg-rep.htm>

How is imported renewable electricity treated and what if firming and shaping power was delivered to California? How is this counted if I procured electricity from an eligible renewable resource?

For electricity that is not directly delivered, the Cap-and-Trade Regulation includes a provision to adjust an importer's compliance obligation for eligible renewable electricity procured to fulfill a California distribution utility's Renewables Portfolio Standards (RPS) requirement. The requirements to take the adjustment are contained in section 95852(b)(4) of the Cap-and-Trade Regulation.

For electricity that is directly delivered, the importer will follow the requirements contained in section 95852(b)(3) of the Cap-and-Trade Regulation for specified sources. If Renewable Energy Credits (RECs) were created, the Cap-and-Trade Regulation requires they be retired.

In order to claim the RPS adjustment, the importer must have a contract or ownership rights to procure the electricity generated by the eligible renewable energy resource, or the importer must have a contract to import electricity on behalf of another entity that has ownership or a contract rights to the electricity generated at the eligible facility. The renewable electricity must have been procured to meet California's RPS. The firming

and shaping power is reported under the MRR just as with any other electricity import. A compliance obligation is assessed for these imports as specified in the Cap-and-Trade Regulation. RECs associated with the delivery must be retired the same year in which the importer claims an RPS adjustment. The importer, if not the distribution utility, will have a contractual relationship with the distribution utility and will need to work with the utility to ensure the REC was retired. The importer will report the REC serial numbers under MRR, and should provide a REC retirement report as part of the report as evidence the RECs were retired.

How is the RPS adjustment calculated?

The compliance obligation adjustment is calculated as the total number of eligible megawatt hours (MWhs) reported and verified through MRR for that year multiplied by the default emissions factor for unspecified resources. The default emissions factor is calculated pursuant to provisions in MRR. The default emissions factor is currently set at 0.428 MTCO<sub>2e</sub>/MWh.

Are there any other restrictions on the RPS adjustment?

Yes. If a generator is located in a linked jurisdiction under California's Cap-and-Trade Regulation, then the electricity is no longer eligible for an RPS adjustment. Once a jurisdiction is linked, accounting for GHG emissions occurs within that jurisdiction. There is no California compliance obligation on electricity imported from the linked jurisdiction, so no adjustment is required.

Additional guidance for electricity importers can be found on the MRR webpage:  
<https://ww2.arb.ca.gov/mrr-epe>