

# **Cap-and-Trade Workshop**

## **Compliance & Information Requirements**

California Air Resources Board  
June 25, 2013

# Webcast Information

- Slides posted:

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

- Email questions and comments:

[auditorium@calepa.ca.gov](mailto:auditorium@calepa.ca.gov)

# Agenda

- Status Update & Background
- Morning Session 09:30 – noon
  - Compliance Instruments Retirement and Deadlines
  - Information Sharing & Reporting
- Lunch noon – 01:00PM
- Afternoon Session 01:00PM – 04:00PM
  - Cost Containment Panel Discussion

# Status Update

- Cap-and-Trade Regulation effective January 1, 2012
- Regulatory Amendments effective September 1, 2012
- Emissions Compliance January 1, 2013
- Amendments for Linkage approved by ARB Board April 2013
- Additional Amendments and Offset Protocols
  - Anticipated Board consideration Fall 2013
- California and Québec linked program January 2014

# Background

- Compliance Periods

Compliance Period	Year of Covered Emissions	Date of Compliance Obligation	Annual / Triennial
First	2013	11/01/2014	Annual
	2014	11/01/2015	Triennial
Second	2015	11/01/2016	Annual
	2016	11/01/2017	Annual
	2017	11/01/2018	Triennial
Third	2018	11/01/2019	Annual
	2019	11/01/2020	Annual
	2020	11/01/2021	Triennial

# Background (cont.)

- Compliance instruments valid for surrender (Subarticle 4)
  - CA GHG Allowance
  - Offset credits issued by ARB
  - Allowances from Allowance Price Containment Reserve
- Once linked to Québec (January 2014)
  - Québec allowances
  - Offset credits issued by Québec

# Background (cont.)

- Offset usage limit
  - 8% limit on use of offset credits during a compliance period ( § 95854)
    - Note: Compliance period refers to three-year timeframes (two-year timeframe in first period)
  - No offset usage limit on annual surrender

# Background (cont.)

- Quantity and vintage of compliance instruments to surrender ( § 95855, § 95856)

Year of Covered Emissions	Date of Compliance Obligation	Annual / Triennial	Compliance Obligation	Eligible Vintages
2013	11/01/2014	Annual	30% of 2013 emissions	2013
2014	11/01/2015	Triennial	70% of 2013 emissions 100% of 2014 emissions	2013, 2014
2015	11/01/2016	Annual	30% of 2015 emissions	2013 – 2015
2016	11/01/2017	Annual	30% of 2016 emissions	2013 – 2016
2017	11/01/2018	Triennial	70% of 2015-2016 100% of 2017 emissions	2013 – 2017



# Surrender Example

- Emissions with compliance obligation: 100,000 mtCO<sub>2</sub>e for each of 2013 and 2014
- Surrender of allowances only

Year of Covered Emissions	Date of Compliance Obligation	Available Compliance Instruments in CITSS Accounts
2013	November 1, 2014	2013 allowances: 80,000

## Reconciliation

- 2014: annual compliance obligation = 30,000 mtCO<sub>2</sub>e
  - 2013 vintage allowances surrendered in 2014 = 30,000

# Surrender Example (cont.)

Year of Covered Emissions	Date of Compliance Obligation	Available Compliance Instruments in CITSS Accounts
2013	November 1, 2014	2013 allowances: $80,000 - 30,000 = 50,000$
2014	November 1, 2015	2014 allowances: 200,000

## Reconciliation

- 2015: triennial compliance obligation = 200,000 mtCO<sub>2</sub>e
  - Annual compliance obligation fulfilled with 2013 allowances = 30,000 mtCO<sub>2</sub>e
  - 2013 vintage allowances surrendered in 2015 = 50,000
  - 2014 vintage allowances surrendered in 2015 = 120,000

# Surrender Example 2

## Assumptions

- Emissions with compliance obligation: 100,000 mtCO<sub>2</sub>e for each of 2013 and 2014
- Surrender of allowances and offsets

Year of Covered Emissions	Date of Compliance Obligation	Available Compliance Instruments in CITSS Accounts
2013	November 1, 2014	2013 offsets: 60,000 2013 allowances: 20,000

## Reconciliation

- 2014: annual compliance obligation = 30,000 mtCO<sub>2</sub>e
  - 2013 vintage offsets surrendered in 2014 = 30,000

# Surrender Example 2 (cont.)

Year of Covered Emissions	Date of Compliance Obligation	Available Compliance Instruments in CITSS Accounts
2013	November 1, 2014	2013 offsets: 60,000 – 30,000 = 30,000 2013 allowances: 20,000
2014	November 1, 2015	2013 allowances: 60,000 2014 allowances: 100,000

## Reconciliation

- 2015: triennial compliance obligation = 200,000 mtCO<sub>2</sub>e
  - Annual compliance obligation fulfilled with 2013 offsets = 30,000 mtCO<sub>2</sub>e
    - 8% offset limit of triennial compliance obligation = 16,000 mtCO<sub>2</sub>e → 14,000 of 30,000 vintage 2013 surrendered offsets excluded
  - 2013 vintage allowances surrendered in 2015 = 80,000
  - 2014 vintage allowances surrendered in 2015 = 100,000
  - Total triennial surrender = 180,000 allowances + 16,000 offsets
  - Triennial compliance period shortfall: 4,000 mtCO<sub>2</sub>e

# Potential “True-Up” Allowances

- “Next-Year” vintage allowances allocated to correct historical allocation that was based on estimate of production/emissions
  - Allocation occurs in the calendar year prior to budget year
    - Based on estimates of future production/emissions
- “True-up” accounts for:
  - Difference in estimated production and actual production reported to MRR in that budget year
  - Allocation to new sectors that have not received initial allocation
  - Changes to benchmarks
    - Retroactively applied to previous allocations

# Order of Compliance Instruments Retirement

- Regulation is silent about the order of compliance instrument retirement
- Need to specify retirement order in Regulation
- Québec specifies retirement order in their regulation

# Order of Compliance Instruments Retirement

## Staff Proposal:

- Annual Compliance Obligation
  1. Offset credits: oldest first, not subject to 8% limit
  2. Allowances purchased from the Allowance Price Containment Reserve
  3. Allowances: earlier vintages first
  4. “True-up” allowances up to a predetermined entity limit based on the “true-up” amount

# Order of Compliance Instruments Retirement

## Staff Proposal:

- Triennial Compliance Obligation
  1. Offset credits: oldest first, subject to 8% limit
    - a. If 8% limit reached, offsets exceeding 8% limit excluded
  2. Allowances purchased from the Allowance Price Containment Reserve
  3. Allowances: earlier vintages first
  4. “True-up” allowances: up to a predetermined entity limit based on “true-up” amount



# Considerations

- 8% offset limit applies to compliance obligation at the end of full compliance period
  - Diligence required when surrendering offsets to meet annual compliance obligation

Year of Covered Emissions	Date of Compliance Obligation	Available Compliance Instruments in CITSS Accounts
2013	November 1, 2014	2013 offsets: 60,000 2013 allowances: 20,000
2014	November 1, 2015	2013 allowances: 60,000 2014 allowances: 100,000

- Annual compliance obligation fulfilled with 2013 offsets = 30,000 mtCO<sub>2</sub>e
  - 8% offset limit of triennial compliance obligation = 16,000 mtCO<sub>2</sub>e → 14,000 of 30,000 vintage 2013 surrendered offsets excluded
- 2013 vintage allowances surrendered in 2015 = 80,000
- 2014 vintage allowances surrendered in 2015 = 100,000
- Triennial compliance period shortfall: 4,000 mtCO<sub>2</sub>e

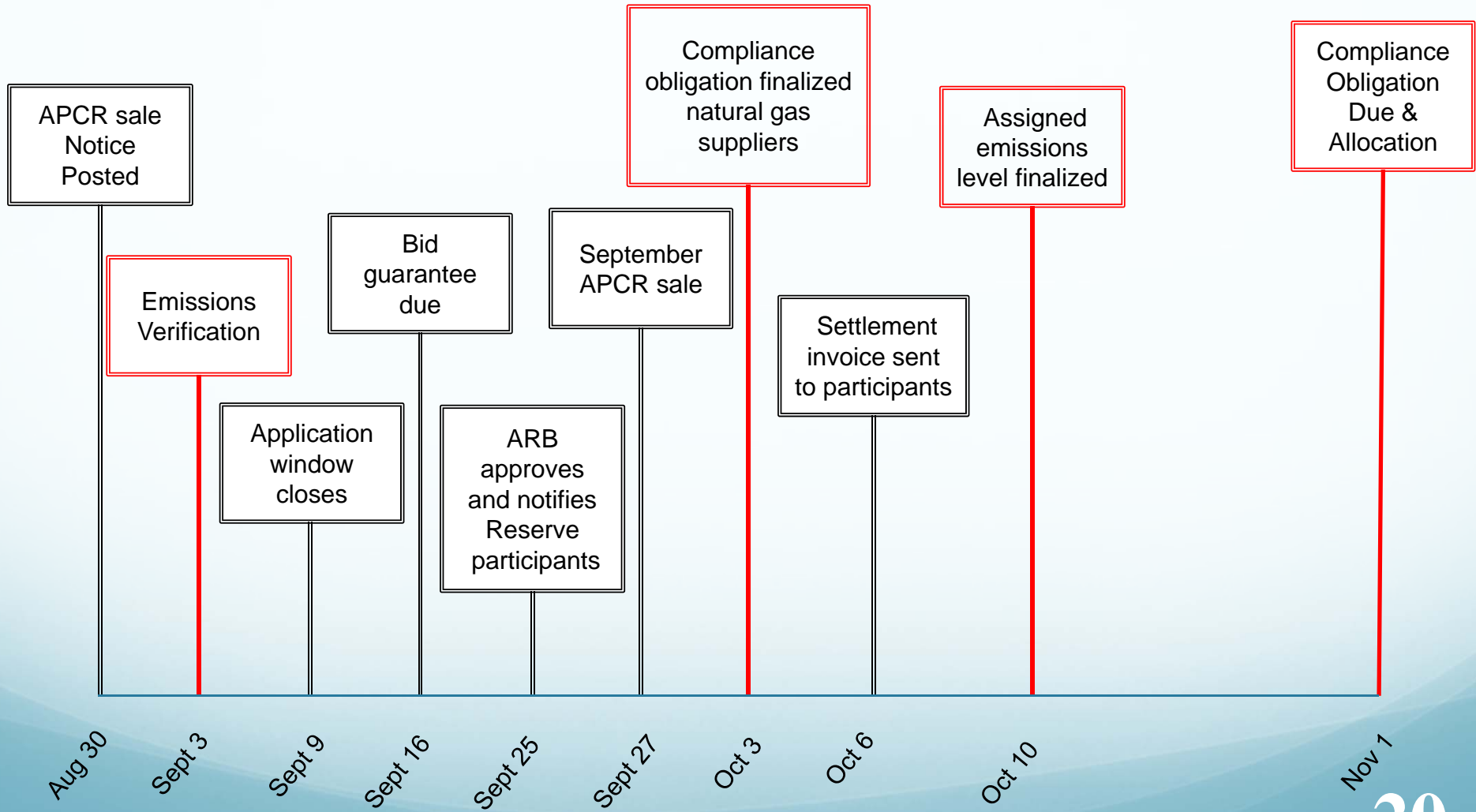
# Considerations (cont.)

- No holding limit for offsets
  - Holding limit ( § 95920) applies to all “current” vintage allowances, earlier vintage allowances, and APCR allowances that can be used to satisfy the entity’s compliance obligation
- Applicability to Québec beginning 01/01/2014
  - 8% offset limit applies
  - Allowance retirement by vintage year without consideration for jurisdiction

# Compliance Timelines

- Many deadlines to consider between August and November
  - Late September includes Reserve Sale prior to the Nov 1 surrender deadline
  - In some cases, compliance obligation not known until after the registration period ends for the Reserve Sale
  - Potential “true-up” allowances allocated on same day as compliance surrender due date
- Should dates be adjusted?

# Compliance Timeline



# Questions

# **Public Information Sharing & New Reporting Requirements**

California Air Resources Board  
June 25, 2013

# Proposed Calendar of Information Release Dates

Month	Allocation Data	Compliance Obligation Data	CITSS Registrants	Retired Instruments	Compliance Account Balance	Offset Project Data	Auction Data
Jan						1st business Wed	
Feb						1st business Wed	Quarterly Auction Report
Mar			last business day		last business day	1st business Wed	60-day notice for 2nd Auction
Apr						1st business Wed	
May						1st business Wed	Quarterly Auction Report
Jun			last business day		last business day	1st business Wed	60-day notice for 3rd Auction
Jul						1st business Wed	
Aug						1st business Wed	Quarterly Auction Report
Sep			last business day		last business day	1st business Wed	60-day notice for 4th Auction
Oct						1st business Wed	
Nov		1st business day				1st business Wed	Quarterly Auction Report
Dec	(12/1 or first business day) industrial or EDU allocation		last business day	middle of the month	last business day	1st business Wed	(12/1 or first business day) Release Reserve Price and next year's auction budget. 60-day notice for 1st Auction

# Allocation Data

- Updated annually on December 1
- Direct distribution to covered entities for industrial assistance
  - Link: [http://www.arb.ca.gov/cc/capandtrade/allowanceallocation/sector\\_based\\_industrial\\_allocation.pdf](http://www.arb.ca.gov/cc/capandtrade/allowanceallocation/sector_based_industrial_allocation.pdf)
  - Will include entity CITSS ID numbers
- Direct distribution to electrical distribution utilities on behalf of ratepayers
  - Link: [http://www.arb.ca.gov/cc/capandtrade/ct\\_rf\\_april2013.pdf](http://www.arb.ca.gov/cc/capandtrade/ct_rf_april2013.pdf)



# Compliance Obligation Data

- Facility compliance obligation emissions
  - [http://www.arb.ca.gov/cc/capandtrade/covered\\_entities\\_011013\\_v2.xlsx](http://www.arb.ca.gov/cc/capandtrade/covered_entities_011013_v2.xlsx)
- Release Date
  - Annually 12:00 (noon) Pacific Time, November 1, or first business day after
  - Note: Each year would have a separate column and then an aggregate column for the emissions for the compliance periods(s).
  - MRR Inventory Data: Annual release at 12:00 (noon) Pacific Time, November 1, or first business day, with no reference to covered emissions

# CITSS Registrant Data

- Registered entities in CITSS
    - CITSS ID with legal name (not account #)
    - Individual VAE name
    - Not currently posted
  - Proposed Release Date
    - 12:00 (noon) Pacific Time; Last Business Day of Quarter
- Q1: March 29, 2013
- Q2: June 28, 2013
- Q3: September 31, 2013
- Q4: December 31, 2013

# CITSS Registrant Data – Example

<u>CITTS Acct Number</u>	<u>Entity Name</u>
CA1385	Cheesy Garlic Bread
CA1386	Chicken & Waffle
CA1387	Sriracha
CA1388	Dill Pickle
CA1389	Root Beer
CA1390	Banana Split
CA1391	Chili & Chocolate
CA1392	Orange Zest

# Retired Compliance Instrument Data

- Instruments in ARB's Retirement Account
  - Not currently posted
- Proposed release Date
  - 12:00 (noon) Pacific Time, December 15, or first business day thereafter

# Retired Compliance Instrument Data – Example

Entity Name	Compliance Event	Entity Type	2013 Vintage	2014 Vintage	2009 Offset by Type	2010 Offset by Type	2011 Offset by Type	Total
<b>Sriracha</b>		Covered/Opt-in						
	November 1 2014		1003	1004	1005	1006	1007	<b>5025</b>
	November 1 2015		2066	2066	2066	2066	2066	<b>10330</b>
<b>Dill Pickle</b>		VAE						
	November 1 2014		1005	1006	1007	1008	1009	<b>5035</b>
	November 1 2015		4074	4076	4078	4080	4082	<b>20390</b>
<b>Banana Split</b>		Covered/Opt-in						
	November 1 2014		3045	3045	3045	3045	3045	<b>15225</b>
	November 1 2015		5087	5087	5087	5087	5087	<b>25435</b>
<b>Total</b>			<b>16280</b>	<b>16284</b>	<b>16288</b>	<b>16292</b>	<b>16296</b>	<b>81440</b>

# Compliance Account Information

- Compliance Account Instruments
  - Staff considering alternatives to individual accounts
  - Could be aggregated across compliance accounts
  - Not currently posted
- Proposed release Date
  - 12:00 (noon) Pacific Time; Last Business Day of Quarter
  - Q1: March 29, 2013
  - Q2: June 28, 2013
  - Q3: September 31, 2013
  - Q4: December 31, 2013
- Staff considering adjustments to frequency

# Compliance Account Discussion

- When do individual account balances reveal if an entity is going long?
- When do individual account balances reveal if an entity is short?
- Balancing risks to the market
  - Does revealing an individual compliance account balance expose a covered entity to manipulation?
  - Does revealing this information prevent manipulation by someone tightening the market?

# Offset Project Data

- Offset Project Level Data
  - Will be published once ARB compliance credits are issued
  - Not currently posted
- Release Date
  - 12:00 (noon) Pacific Time, first business Wednesday of each month



# Offset Project Data - Example

Example: List of Early Action Offset Projects

ARB Project Identification #	Offset Project Name	Listing Entity	Type of Project	Offset Project Location	Project Documentation	EAOP Project ID#	Early Action Listing Information
CAODXXXX	Project A	Operator 1	Digester, forestry, etc	Location A	Name of EAOP (i.e. ACR)	ACRXXX	PDF
	Project B	Holder 1		Location 2	Name of EAOP (i.e. CAR)	CARXXX	PDF

Example: Project Level Data

ARB Project ID # by Reporting Period	Reporting Period Dates	Vintage Year	ARB Offset Credits Issued Total number/vintage yr	Date of Issuance	Invalidation Status
CAODXXXX-A	1/1/2011 – 12/31/2011	2010	20,000	Nov 24, 2013	8 years
CAODXXXX-B	1/1/2011 – 12/31/2011	2011	30,000	Dec 1 2013	3 years

# Questions

# Information Reporting in CITSS

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June 25, 2013

# Current Transfer Request Information Content

- Required fields are the same for all transaction types:
  - Account representatives
  - Account numbers
  - Serial Numbers
  - Date of transaction agreement
  - Settlement date
  - Price

# Proposed Fields to be Removed

- Serial numbers
- Staff proposes to replace the following generic fields with fields specific to type of agreement:
  - Date of transaction agreement
  - Settlement date
  - Price

# Proposed Fields to Add

- Staff will propose Regulation amendments to require reporting in CITSS of:
  - Type of Compliance Instrument
  - Vintage of compliance instrument

# Proposed Process for Reporting

- Identify the type of transaction agreement for which transfer request is submitted
- Enter information specific to that type of agreement

# Identify Type of Transaction Agreement

- Staff will propose Regulation amendments to require reporting in CITSS of:
  - Spot Bilateral – no longer than 3 days from signing until delivery
  - Customized Bilateral – no less than 4 days from signing until delivery
  - Exchange-Traded Contracts – spot and futures



# Information Specific to Spot Bilateral Agreements

- Date entered into transaction agreement
- Settlement Date
  - If transfer is final term to be settled: date transfer request submitted.
  - If other terms to be settled after transfer: date other terms scheduled to be settled.
- Price

# Information Specific to Customized Bilateral Agreements

- Date entered into transaction agreement
- Date the agreement terminates
- If the contract contains provisions for further compliance instrument transfers, enter the transfer frequency (e.g. quarterly)
- If the contract is a “bundled” purchase of instruments and other products, identify products (e.g. natural gas)
- Price
  - Fixed price
  - Base plus margin

# Information Specific to Exchange-Traded Contracts

- Name of Exchange
- Exchange code for contract
- Type of contract (Spot, Future)
- Date of close of trading for the contract
- Price at close of trading

# Check Boxes for Zero Price

- The regulation will allow for entities to specify a zero price for transfers:
  - Between direct corporate associates
  - Between an entity's holding and compliance account
  - From a POU to a JPA or other POU as part of joint venture generation project
  - From a POU to a federal power authority to cover emissions from imported power
  - From a utility to generator under a tolling agreement or other contract for power not specifying instrument price
  - Under “bundled” agreement that does not specify price

# Next Steps

- Staff requests comments on today's presentation
- All written comments due by 5 PM PT, July 9, 2013

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

# Additional Information

- Cap-and-Trade Program

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

- Join the cap-and-trade list serve

[http://www.arb.ca.gov/listserv/listserv\\_ind.php?listname=capandtrade](http://www.arb.ca.gov/listserv/listserv_ind.php?listname=capandtrade)

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# Questions