• AB 32: California Global Warming Solutions Act adopted in 2006
• Requires ARB to develop a plan to reduce CA emissions to 1990 levels by 2020
  – Direct regulation of vehicles, fuels, energy efficiency, landfills, refrigerants, etc.
  – Cap and trade program provides emission certainty to ensure meeting the 2020 goal
• Cap and trade regulation prices carbon to incentivize change and provide flexibility to regulated entities
Scope, Point of Regulation, Cap Setting and Allocation

- Covers electricity providers, industrial sources, transportation fuel, and natural gas providers
- Cap requires gradual emission reduction from actual emissions in 2013 to 2020 goal
- Allowances freely distributed to:
  - Electric and natural gas utilities on behalf of ratepayers
  - Industrial producers for transition assistance and leakage prevention; amount based on most efficient CA facility
  - Allowance price containment reserve
  - Voluntary renewable electricity reserve
- Remaining allowances auctioned
MRV, Data and Registry

• Mandatory reporting since 2007
• Electricity, cogen, oil refineries, cement plants, natural gas and transportation fuel providers required to report
  – Includes electricity importers
• Independent third-party verification of reports required; ARB accredits verifiers
• Data collected in emission reporting system consistent with U.S. EPA
Cost Containment Measures and Use of Offsets

• Three-year compliance period, unlimited banking, allowance price containment reserve, offsets

• Offsets
  – Regulated entities can use up to 8% offsets to meet their compliance obligations
  – Offsets must be real, additional, quantifiable, permanent, verifiable and enforceable
  – Must be generated from CA approved protocols; 5 approved protocols
  – Must be verified by third-party verifiers
  – “Buyer liability” provision
  – Some concern about offsets in CA because of desire for on-site emission reductions
Auctions and Use of Revenue

- Allowances remaining after allocation are auctioned
- Auctions held quarterly
  - Current vintage and 3 years into the future
- Auction reserve price -- $10 in 2012, increasing annually by 5% plus inflation
- Electronic bids accepted in a 3-hr window
- Proceeds expended according to 3-yr investment plan and Governor’s Budget
  - Legislative approval required
Institutional Arrangements for ETS

- ARB administers and enforces cap-and-trade program in CA
- Linked with Quebec’s cap-and-trade program
- Compliance Instrument Tracking System Service (CITSS) and auctions operated by WCI, Inc. for CA and QC
- Close coordination with Commodities Futures Trading Commission and Federal Energy Regulatory Commission to track market activity
Enabling Trading and Business Prep

- Market protections built into program
  - Auction designed to avoid gaming
  - Regulatory requirements for disclosure of corporate relationships
  - One tracking system with KYC requirements
  - Holding and purchase limits
- Consultation with independent market monitor
- Public participation in program development
- Guidance, training, and customer help lines