

Policy Mapping

- 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