



# **California's Cap and Trade Program**

## **Session 6 Institutional Arrangements**

**PMR Technical Workshop  
March 13, 2012**

# Major Considerations

- Implementation
- Monitoring, Reporting, and Verification
- Compliance and Enforcement
- Adaptive Management
- Linkage

# Implementation

- Detailed program design and tools necessary to effectively implement program
- Analyses ongoing on program design
- Workload and costs for implementation are substantial and likely greater than rule/program development
- Design to allow for linkage

# Typical Requirements

- Operations
  - Market tracking system
  - Market simulation
  - Implementation documents and training
- Auctions
  - RFP for financial services provider
  - RFP for auction platform
- Oversight
  - RFP for market monitoring
- Additional Analyses
  - Continue leakage and benchmarking work

# Reporting and Compliance Instrument Tracking System

- Reporting Tool
  - Contractor began work in August 2011
  - Stakeholder testing began in January 2012
- Compliance Instrument Tracking System Service (CITSS)
  - Contractor began work in August 2011
  - Phase I - CITSS Registration anticipated to be available in 2<sup>nd</sup> quarter of 2012



# Reporting and Compliance Instrument Tracking System (cont)

- Service RFPs in place
  - Auction Platform: Markit North America
  - Financial Services: Deutsche Bank
  - Market Monitor: Monitoring Analytics, LLC
  - Market Training: Cutting Edge Capital
- Working with University of California
  - Market Simulation
  - Market Surveillance

# Monitoring Program Outcomes

- Ensure that program is meeting objectives and not resulting in unanticipated outcomes
- Use independent market monitor to assess auction results
- Use independent market surveillance committee to monitor for evidence of market manipulation
- Report to the Board on program status and implementation at least annually
- Conduct rulemaking prior to each compliance period if adjustments are needed

# Other MRV Provisions

- Mandatory emissions reporting and verification
- Offset and registry verification and oversight
- Ongoing engagement of experts in economic analysis and program design
- Agency due diligence in program management
- Transparency in the routine reporting of results
- Continued engagement of stakeholders, the public, and elected officials



# How Does Program Design Ensure Market Integrity?

- All traders must register in the cap-and-trade tracking system
- The tracking system provides a chain of custody for allowances and offsets
- Purchase and holding limits help prevent market manipulation
- Balance need for transparency and safeguards to prevent market manipulation

# How Will ARB Ensure Compliance and Enforce the Regulation?

- Registration, reporting and third-party verification requirements
- Program designed to encourage compliance
- Covered entities must surrender compliance instruments for a portion of their emissions each year starting in 2013

# How Would the Program Address Enforcement?

- Penalty provisions would remove any financial incentive for non-compliance
- Provisions would define what constitutes a violation
- Methods would be specified for calculating the number of violations

# What Agencies Would Be Involved in Enforcement?

- A robust enforcement program will be vital
- ARB has had ongoing discussions with other State and federal enforcement agencies, including:
  - California Attorney General's Office
  - Cal/EPA
  - California Energy Commission
  - California Public Utilities Commission
  - U.S. Department of Justice
  - U.S. EPA
  - Commodity Futures Trading Commission
  - Securities and Exchange Commission
  - Federal Energy Regulatory Commission

# **Adaptive Management Plan Focus Areas**

- Localized air quality impacts
- Forest impacts from the proposed Compliance Offset Protocol for U.S Forest Projects



# **Adaptive Management Key Elements**

- Information Gathering
- Review and Analysis
- Response

# Adaptive Management Next Steps

Mid 2012:	Board update on Adaptive Management Plan implementation
December 2012:	Adaptive Management Implementation Report prior to first compliance period
December 2013:	Board update on Adaptive Management implementation
December 2014:	Adaptive Management Report for calendar year 2013
Ongoing: reports	Annual Adaptive Management

# Western Climate Initiative (WCI)

- WCI, Inc. established 2011
- California and Quebec have adopted cap-and-trade regulations
- California and Quebec working to link programs in 2012
- California is working with WCI to evaluate and develop protocols that can be used within a regional program

# Linkage between California and Quebec

- Currently working to harmonize major program elements, including
  - Cap-and-Trade & Mandatory GHG Reporting Regulations
  - Tracking system requirements
  - Market Mechanics
- Regulations do not have to be identical
- Market mechanics must be identical

# Linkage Rulemaking

- California must complete a new rulemaking to link with Quebec, which will include
  - Review of Quebec's final program
  - Revisions to ARB's adopted cap-and-trade regulation
  - Full public stakeholder process
  - Environmental review (CEQA)
  - Board action