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 2nd 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

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
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<tbody>
<tr>
<td>Mid 2012:</td>
<td>Board update on Adaptive Management Plan implementation</td>
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<tr>
<td>December 2012:</td>
<td>Adaptive Management Implementation Report prior to first compliance period</td>
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<td>December 2013:</td>
<td>Board update on Adaptive Management implementation</td>
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<td>Ongoing:</td>
<td>Annual Adaptive Management reports</td>
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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
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