



California's Cap-and-Trade Program: Program Basics and Requirements for Electrical Distribution Utilities

May 2012

What is Cap and Trade?

- A market-based mechanism that places a “cap” on greenhouse gas (GHG) emissions from covered sources. The cap declines over time to achieve economy-wide emissions reductions.
- Part of a suite of complementary measures (including the Renewables Portfolio Standard and Low Carbon Fuel Standard, among others) that will collectively reduce GHG emissions to 1990 levels by 2020
- Participants are required to surrender one compliance instrument (allowances and offsets) for each metric ton of covered GHG emissions
- Compliance instruments may be traded

Who is Covered under the Cap-and-Trade Program?

- Starting in 2012, stationary sources emitting at or above 25,000 metric tons of CO₂e per year
 - Large industrial sources
 - Electricity generation and importers of electricity
- Beginning in 2015, combustion from smaller emissions sources will be captured by assessing a compliance obligation on upstream fuel suppliers
 - Transportation fuels
 - Residential and commercial use of natural gas

What is Required of Covered Entities?

- Register with ARB
- Report and verify GHG emissions annually
- Surrender compliance instruments to match covered emissions at the end of each compliance period
- Comply with recordkeeping and market rules, as well as with other program requirements

Mandatory Reporting Regulation Timeline for Electrical Distribution Utilities

- Feb 1: Deadline for registering specified sources
- April 10: Deadline to submit previous year's GHG emissions report for in-state power plants
- Jun 1: Deadline to submit previous year's GHG emissions report for imported electricity
- Sep 1: Deadline to verify emissions

Cap-and-Trade Program Timeline: 2012

- Sep 1: POUs and co-ops must inform ARB of allowance placement into Compliance Account or Limited Use Holding Account
- Sep 14: Allocation to electrical distribution utilities for vintage 2013 allowances
- Mid-Sep: Notice of November 14th auction
- Mid-Oct: Auction participant application deadline
- Early Nov: Deadline to submit bid guarantee
- At least ten days prior to auction: Deadline to consign allowances to auction
- Nov 14: Auction

Cap-and-Trade Program Timeline: 2013–2021

- Auctions: 12th business day of Feb, May, Aug, and Nov, 2013–2020
- Reserve sales: 1st business day 6 weeks after each quarterly auction, 2013–2020
- June 1, 2014–2021: Attestation of no resource shuffling
- June 30, 2014–2021: Report on use of auction proceeds
- Sep 1, 2013–2020: Deadline for POUs and co-ops to report on allowance account placement for allocation
- Nov 1, 2014–2021: Surrender of compliance instruments
- Nov 1, 2013–2019: Allocation of allowances to electrical distribution utilities for the next vintage year

Registration and the Tracking System

- Register with the Compliance Instrument Tracking System Service (CITSS)
 - Registration will open summer 2012
- Primary Account Representative and Alternate(s)
 - Legal authority to act on behalf of entity
- Three account types applicable to program participants
 - Holding Account
 - Compliance Account
 - Limited-Use Holding Account (specific to electrical distribution utilities)

Quarterly Auctions: 2013–2020

- Occur on the 12th business day of the second month of each quarter
- Bidding occurs on the day of the auction
- 40% purchase limit for current vintage allowances
- 25% purchase limit for future vintage allowances

Quarterly Auctions (continued)

- 75 days prior: Consign allowances to auction
 - Must annually consign *all* current and prior vintage allowances in Limited Use Holding Account
- 60 days prior: Auction will be noticed
- 30 days prior: Auction participant applications due
- 12 days prior: Bid guarantees due (bond, cash, or letter of credit)

Price-Containment Reserve Sales: 2013–2020

- First sale: March 8, 2013
- Subsequent sales occur on the first business day six weeks after each quarterly auction
- Three fixed-price tiers (in 2013: \$40, \$45, and \$50)
- Prices adjust annually for inflation and 5% real appreciation
- 12 days prior: Bid guarantees due (bond, cash, or letter of credit)

Annual Allocation: 2013–2019

- IOUs must consign all allowances to auction
- POUs may distribute allowances between:
 - Compliance Account of generation facility owned by
 - Utility or cooperative
 - Joint power authority
 - Limited Use Holding Account (consign to auction)
- POUs must inform ARB how to distribute allowances amongst accounts by Sep 1

Annual Allocation (continued)

- Allowances are distributed to electrical distribution utilities for the benefit of ratepayers
- Annual allocations by electrical distribution utility can be found in table 9-3 of the regulation

Example of a utility's allocation calculation of vintage 2013 allowances distributed in 2012



Compliance Obligation Surrender: 2014–2021

- Compliance obligation calculated from reported and verified emissions per section 95852 of the regulation
- Three compliance periods: 2013–2014, 2015–2017, and 2018–2020
- **Annual Surrender:** Nov 1, 2014, 2016, 2017, 2019, and 2020 – Surrender instruments equal to 30% of the previous year's emissions with a compliance obligation (based on the reported data)
- **Triennial Surrender:** Nov 1, 2015, 2018, and 2021 – Surrender instruments equal to its compliance period obligation *minus* what has previously been surrendered (based on verified data)

Use of Offsets as Compliance Instruments

- Each covered entity is limited to satisfying up to 8% of its total compliance obligation, per compliance period, with offset credits
- No limit on the percentage of offsets that may be used to satisfy the annual 30% surrender requirement

Staying Informed

- Register with Cap-and-Trade Program listserv to keep informed of additional information
 - http://www.arb.ca.gov/listserv/listserv_ind.php?listname=capandtrade
- Register with tracking system
 - Available summer 2012
- Cap-and-Trade Program web site:
 - <http://www.arb.ca.gov/cc/capandtrade/capandtrade.htm>
- Cap-and-Trade Program Hotline
 - (916) 322-2037