Presentation Outline

- Background
- Major milestones
- General Program statistics
- Reporting and verification
- First compliance period
- Offsets program
- Program linkage
- 2016 Rulemaking activities
- Next steps
Program Background

- One of a suite of measures to reduce greenhouse gas (GHG) emissions under AB 32
- The cap limits total GHG emissions from all regulated sources
- The cap declines over time to reduce emissions
- Participants are allowed to trade State-issued GHG emissions allowances
  - Provides flexibility and reduces costs of compliance
- Works together with command-and-control measures
Program Goals

- Reduce GHG emissions
- Put a price on emissions to incentivize change
- Spur innovation in low-emission and efficient technologies
- Complement existing programs to reduce smog and air toxics
- Ensure AB 32 emissions goals for GHGs are realized through a strict limit
- Provide a flexible mechanism that allows covered entities to find the most cost-effective reductions
- Facilitate integration of regional, national, and international GHG reduction programs
Program Requirements

- **Mandatory GHG Reporting Regulation (MRR)**
  - Adopted 2007 and in effect January 1, 2008
  - 10,000 MT CO2e threshold for reporting only, and 25,000 MT CO2e threshold for inclusion in Cap-and-Trade Program (reporting and verification)
  - About 775 reporting entities
  - Large emitters, importers and retail providers of electricity, and fuel suppliers

- **Cap-and-Trade Regulation**
  - Adopted in Fall 2011 and in effect January 1, 2012
  - Covers 85% of statewide GHG emissions
  - Must surrender allowances and offsets to match GHG emissions for each compliance period
  - Comply with recordkeeping, market rules, verification, and other requirements in the regulation
Major Milestones

- First auction: November 2012
- First compliance period began: January 2013
- Program linked with Québec: January 2014
- First annual compliance event: November 2014
  - 100% compliance
- First joint auction with Québec: November 2014
- Compliance obligation for supplied fuels: January 2015
- First compliance period compliance event: November 2015
  - 99.8% compliance
General Program Statistics

- ~450 facilities are covered by the Program
- ~260 voluntary entities are in the Program
- ~625 million compliance instruments are held in private accounts
- Most recent auction settlement price was $12.52 per allowance
- Approximate market value of compliance instruments in circulation is $7.56 billion
For 2014 data, 775 reports were submitted to ARB
- 530 reports required verification
- 528 reports were verified for 99.6% compliance

Enforcement
- Staff works proactively with stakeholders to prevent nonconformance with the Regulation
- Formal enforcement is consistent and effective
First Compliance Period

- Total covered emissions were ~291 million MT CO$_2$e in 2013 and 2014
- Compliance instruments were surrendered for over 99.8% of covered emissions
- Instruments surrendered:
  - 95.5% allowances
  - 4.5% offsets
- Long-term financial planning of covered entities includes consideration of GHG emissions
Six offset protocols have been adopted:

- U.S. forest
- Urban forest
- Livestock digesters
- Ozone depleting substances (ODS)
- Mine methane capture (MMC)
- Rice cultivation
Offsets Program

- First offsets were issued September 2013
- 70 compliance projects and 90 early action projects have received ARB offset credits
- 33,890,217 offsets have been issued to date
- 111 offset project verifiers

<table>
<thead>
<tr>
<th>Project type</th>
<th>U.S. Forest</th>
<th>Urban Forest</th>
<th>Livestock Digesters</th>
<th>ODS</th>
<th>MMC</th>
<th>Rice Cultivation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance</td>
<td>13,774,091</td>
<td>0</td>
<td>378,190</td>
<td>3,996,482</td>
<td>280,667</td>
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<td>Early action</td>
<td>7,158,925</td>
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<td>1,349,970</td>
<td>6,183,259</td>
<td>768,633</td>
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Program Linkage

- California Program linked with Québec beginning January 2014
  - Five joint auctions held to date
  - Québec is developing offset protocols for mine methane capture
  - 100% compliance in first compliance period for 55 reporters in Québec

- Ontario announced intentions to develop a cap-and-trade program with a launch in 2017
  - Proposing to link their program with California/Québec
  - Ongoing collaboration on reporting, market rules, and offset protocols to support linkage
Staff Proposal: Objectives for Regulation 2016 Amendments

- Continue the Cap-and-Trade Program beyond 2020
- Improve Program efficiency where possible
  - Streamline Regulation requirements and implementation
  - Remove unnecessary requirements
- Reflect latest data and information
  - Leakage study results
  - Global warming potentials
  - Experience from other emissions trading programs
- Maintain environmental and market integrity
Staff Proposal: Regulation 2016
Amendments for 3rd Compliance Period

- Streamlining offsets program
- Streamlining auctions
- Streamlining management of information
- Incorporate sector-based offset credits into Program
- Incorporate results of leakage studies for third compliance period allowance allocation
- Linkage with Ontario, Canada
Staff Proposal: Regulation 2016 Amendments for Post-2020 Program

- Post-2020 caps on emissions and program scope
- Changes to cost-containment and market oversight provisions
- Modifications so that the Program can be used to comply with U.S. EPA’s Clean Power Plan
- Allowance allocation for leakage protection
- Continue linkage with Québec and potentially Ontario
## Regulation 2016 Amendments: Tentative Schedule

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
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<tbody>
<tr>
<td>October 2015 to May 2016</td>
<td>Public workshops on specific topics</td>
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<tr>
<td>Spring 2016</td>
<td>45-day Regulation and Initial Statement of Reasons released</td>
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<tr>
<td>Summer 2016</td>
<td>First Board hearing</td>
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<tr>
<td>Spring 2017</td>
<td>Second Board hearing</td>
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<tr>
<td>Summer 2017</td>
<td>Final Regulation and Final Statement of Reasons to Office of Administrative Law</td>
</tr>
<tr>
<td>October 2017</td>
<td>Adopted Regulation becomes effective</td>
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Regulation 2016 Amendments: Workshop Schedule

- Past workshops:

<table>
<thead>
<tr>
<th>Date</th>
<th>Workshop Topic</th>
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<tbody>
<tr>
<td>October 2, 2015</td>
<td>2016 rulemaking scope and schedule</td>
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<td>Cost containment and market oversight</td>
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<tr>
<td></td>
<td>Compliance with U.S. EPA Clean Power Plan</td>
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<tr>
<td>October 28, 2015</td>
<td>Sector-based offsets</td>
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- Tentative future workshops:

<table>
<thead>
<tr>
<th>Date</th>
<th>Workshop Topic</th>
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<tr>
<td>January 2016</td>
<td>Leakage study results</td>
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<td>February 2016</td>
<td>Allowance allocation</td>
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<tr>
<td>Spring 2016</td>
<td>Further workshops as needed</td>
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Cap-and-Trade Program: Next Steps

- Continue to implement the Program
- Continue public process for 2016 amendments
- Continue coordination with development of the Climate Change Scoping Plan Update and the plan for compliance with the U.S. EPA’s Clean Power Plan