State of California
AIR RESOURCES BOARD

PROPOSED AMENDMENTS TO THE CALIFORNIA CAP ON GREENHOUSE GAS EMISSIONS AND MARKET-BASED COMPLIANCE MECHANISMS REGULATION

Resolution 18-51

December 13, 2018

Agenda Item No.: 18-10-7

WHEREAS, sections 39600 and 39601 of the Health and Safety Code authorize the California Air Resources Board (CARB or Board) to adopt standards, rules, and regulations and to do such acts as may be necessary for the proper execution of the powers and duties granted to and imposed upon the Board by law;

WHEREAS, the Legislature has enacted the Global Warming Solutions Act of 2006 (Assembly Bill 32 or AB 32; Statutes of 2006, Chapter 488; Health & Safety Code section 38500 et seq.), which declares that global warming poses a serious threat to the economic well-being, public health, natural resources, and the environment of California, and creates a comprehensive multi-year program to reduce California's greenhouse gas (GHG) emissions to 1990 levels by 2020;

WHEREAS, section 38551 of the Health and Safety Code directs that the statewide GHG limit shall remain in place indefinitely, and that emissions reductions be continued and maintained beyond 2020;

WHEREAS, section 38566 of the Health and Safety Code, added pursuant to Senate Bill 32 (SB 32; Chapter 250, Statutes of 2016), further directs that CARB shall ensure that state GHG emissions are reduced to at least 40 percent below the statewide GHG limit no later than December 31, 2030;

WHEREAS, section 38501 to the Health and Safety Code expresses the Legislature’s intent that CARB coordinate with State agencies and consult with the environmental justice community, industry sectors, business groups, academic institutions, environmental organizations, and other stakeholders in implementing AB 32; and design emissions reduction measures to meet the statewide emissions limits for GHGs in a manner that minimizes costs and maximizes benefits for California’s economy, maximizes additional environmental and economic co-benefits for California, and complements the State’s efforts to improve air quality;

WHEREAS, section 38501(c) of the Health and Safety Code declares that California has long been a national and international leader on energy conservation and environmental stewardship efforts, and the targets established pursuant to AB 32 and
SB 32 will continue this tradition of environmental leadership by placing California at the forefront of national and international efforts to reduce GHG emissions;

WHEREAS, section 38501(d) of the Health and Safety Code confirms that national and international actions are necessary to fully address the issue of global warming, but action taken by California to reduce GHG emissions will have far reaching effects by encouraging other states, the federal government, and other countries to act;

WHEREAS, the Intergovernmental Panel on Climate Change 2018 Special Report, Global Warming of 1.5°C, predicts we will experience the impacts of climate change sooner than previously thought, and that we need to simultaneously find a path to zero emissions in all of our energy and industrial sectors while we reduce emissions from deforestation and sequester carbon through our natural working lands and other mechanisms;

WHEREAS, the Fourth National Climate Assessment Report finds we are already experiencing the effects of climate change and climate change exacerbates existing vulnerabilities in communities across the United States, presenting growing challenges to human health and safety, quality of life, and the rate of economic growth;

WHEREAS, section 38501(e) of the Health and Safety Code states by exercising a global leadership role, California will also position its economy, technology centers, financial institutions, and businesses to benefit from national and international efforts to reduce GHG emissions. More importantly, investing in the development of innovative and pioneering technologies will assist California in achieving the 2020 and 2030 statewide goals on GHG emissions reductions and will provide an opportunity for the state to take a global economic and technological leadership role in the reduction of GHG emissions;

WHEREAS, section 38510 of the Health and Safety Code designates CARB as the State agency charged with monitoring and regulating sources of GHG emissions in order to reduce these emissions;

WHEREAS, section 38560 of the Health and Safety Code directs CARB to adopt rules and regulations in an open public process to achieve the maximum technologically feasible and cost-effective GHG emissions reductions from sources or categories of sources;

WHEREAS, section 38562 of the Health and Safety Code requires CARB to adopt GHG emissions limits and emissions reduction measures by regulation to achieve the maximum technologically feasible and cost-effective reductions in GHG emissions in furtherance of achieving the statewide GHG emissions limit, to become operative beginning on January 1, 2012;
WHEREAS, section 38562(b) of the Health and Safety Code requires CARB, to the extent feasible and in furtherance of achieving the statewide GHG emissions limit, to do all of the following:

Design the regulations, including distribution of emissions allowances where appropriate, in a manner that is equitable, seeks to minimize costs and maximize total benefits to California, and encourages early action to reduce GHG emissions;

Ensure that activities undertaken to comply with the regulations do not disproportionately impact low-income communities;

Ensure that entities that have voluntarily reduced their GHG emissions prior to the implementation of this section receive appropriate credit for early voluntary reductions;

Ensure that activities undertaken pursuant to the regulations complement, and do not interfere with, efforts to achieve and maintain federal and state ambient air quality standards and to reduce toxic air contaminant emissions;

Consider cost-effectiveness of these regulations;

Consider overall societal benefits, including reductions in other air pollutants, diversification of energy sources, and other benefits to the economy, environment, and public health;

Minimize the administrative burden of implementing and complying with these regulations;

Minimize leakage; and

Consider the significance of the contribution of each source or category of sources to statewide GHG emissions;

WHEREAS, the Legislature has enacted Assembly Bill 197 (AB 197; Statutes of 2016, Chapter 250), which directs CARB to follow the requirements of section 38562(b) of the Health and Safety Code, consider the social cost of GHG emissions, and prioritize direct emission reductions from sources in California;

WHEREAS, sections 38562(c) and 38570 of the Health and Safety Code authorize CARB to adopt regulations that utilize market-based compliance mechanisms;

WHEREAS, the Legislature has enacted Assembly Bill 398 (AB 398; Statutes of 2017, Chapter 135), which amends certain provisions of AB 32 through 2030, and provides direction on a post-2020 market-based compliance mechanism to help achieve the SB 32 GHG emissions reduction target;
WHEREAS, section 38570(c) of the Health and Safety Code further directs CARB to adopt regulations governing how market-based compliance mechanisms may be used by regulated entities subject to GHG emissions limits and mandatory emissions reporting requirements to achieve compliance with their GHG emissions limits;

WHEREAS, section 38571 of the Health and Safety Code directs CARB to adopt methodologies for the quantification of voluntary GHG emissions reductions and regulations to verify and enforce any voluntary GHG emissions reductions that are authorized by CARB for use to comply with GHG emissions limits established by CARB; the adoption of methodologies is exempt from the rulemaking provisions of the Administrative Procedure Act;

WHEREAS, section 38564 of the Health and Safety Code directs CARB to consult with other states, the federal government, and other nations to identify the most effective strategies and methods to reduce GHG emissions, manage GHG control programs, and to facilitate the development of integrated and cost-effective regional, national, and international GHG reduction programs;

WHEREAS, California is a participant in the Western Climate Initiative (WCI) with other partner jurisdictions considering implementation and linkage of GHG cap-and-trade programs;

WHEREAS, over the course of four years, the WCI partner jurisdictions coordinated on developing recommendations for GHG reporting, compliance offsets, and cap-and-trade programs as models for jurisdictions to develop their own programs;

WHEREAS, by linking California’s Program to WCI partner jurisdictions, the combined programs will result in more emission reductions, generate greater potential for lower cost emissions reductions, enhance market liquidity, and will increase opportunities for GHG emissions reductions for covered sources relative to what could be realized through a California-only program;

WHEREAS, the Board adopted the Final Regulation Order establishing a GHG cap-and-trade program for California; the Regulation first became effective January 1, 2012;

WHEREAS, investor-owned electrical distribution utilities are required to consign all allocated allowances to auction, natural gas suppliers are required to consign a minimum percentage of allowances to auction, and that percentage increases every year. Consignment of these allocated allowances allows for GHG cost pass through, which encourages consumer energy conservation, and auction proceeds can be used for GHG emissions reductions and/or returned to ratepayers to protect them from increased energy costs;
WHEREAS, in addition to providing a pathway for the use of renewable natural gas, natural gas fuel cells provide immediate reductions in GHG emissions and other criteria pollutants when displacing higher carbon intensity energy supplies;

WHEREAS, the Board adopted amendments to the Regulation in 2012 to make targeted implementation changes that became effective September 1, 2012;

WHEREAS, the Board adopted amendments to the Regulation in 2013 to formally link the Cap-and-Trade Program with the Province of Quebec's cap-and-trade-program that became effective October 1, 2013, making California and Quebec allowances and offsets available for compliance purposes in both jurisdictions;

WHEREAS, the Board adopted amendments to the Regulation in 2014 to adopt an additional compliance offset protocol for Mine Methane Capture, and make additional implementation changes that became effective July 1, 2014;

WHEREAS, the Board adopted a second set of amendments to the Regulation in 2014 to adopt updates to the compliance offset protocols for Livestock, Ozone Depleting Substances, and United States (U.S.) Forests, and make additional implementation changes that became effective January 1, 2015;

WHEREAS, the Board adopted amendments to the Regulation in 2015 to adopt an additional compliance offset protocol for Rice Cultivation, adopt an update to the compliance offset protocol for U.S. Forests, and make additional implementation changes that became effective November 1, 2015;

WHEREAS, the Board adopted amendments to the Regulation in 2017 to set the GHG allowance budgets from 2021 through 2050, to modify the Allowance Price Containment Reserve, to formally link with the Ontario cap-and-trade program beginning in 2018, and make additional implementation changes that became effective October 1, 2017. In adopting these amendments, the Board directed the Executive Officer through Board Resolution 17-21 to make additional changes in a future rulemaking related to allowance allocation;

WHEREAS, the Board adopted amendments to the Regulation in 2018 to clarify requirements for successor entities after a change in ownership and to clarify the regulatory procedure for establishing the Auction Reserve Price that became effective May 30, 2018;

WHEREAS, staff has proposed amendments to the Cap-and-Trade Regulation to comport with the direction in AB 398 and with Board direction from Resolution 17-21; the amended Regulation is set forth in Attachment A hereto and includes the following elements:

   Establish and implement a price ceiling and two price containment points (also called new post-2020 Reserve tiers);
Revise the quantitative offset usage limits in the post-2020 period;

Establish criteria such that at least half of the compliance offset credit usage limits post-2020 result in direct environmental benefits in the State of California;

Specify industry assistance factors to minimize leakage for allowance allocation post-2020 and in the third compliance period;

Update allowance allocation methodologies to expand transition assistance and make other changes to ensure appropriate allocation levels;

Clarify how allowance value allocated to electricity distribution utilities (EDUs) and natural gas suppliers can best be used to further the goals of AB 32 and protect ratepayers;

Streamline offset implementation requirements, including clarifying regulatory compliance and invalidation requirements of the Compliance Offset Program;

Establish a process to assess a compliance obligation for GHG emissions in the Energy Imbalance Market (EIM);

Clarify rules for the use of compliance instruments with respect to other regulatory programs;

Modify provisions related to linkage with Ontario to de-link with Ontario's program in order to reflect the revocation of Ontario's cap-and-trade regulation;

Simplify participation in the Program by streamlining registration, auction participation, and other Program processes;

Modify provisions to improve clarity regarding expired limited exemptions;

Discontinue the exemption for non-biogenic emissions from waste-to-energy facilities;

Extend the application deadline for the "But-For" combined heat and power (CHP) exemption; and

Make non-substantive changes to improve and clarify the Regulation.

WHEREAS, AB 398 requires the Board to evaluate and address concerns related to overallocation of allowances for years 2021 through 2030 and banking rules, as appropriate;
WHEREAS, AB 398 directed the California Environmental Protection Agency to convene the Independent Emissions Market Advisory Committee to report on the environmental and economic performance of the Cap-and-Trade Program and other relevant climate policies and the committee submitted comments on the proposed amendments to the Board on October 22, 2018;

WHEREAS, staff conducted four public workshops, provided informal regulatory text, and also participated in numerous other meetings with various stakeholders to provide additional opportunities to participate in the regulatory development process;

WHEREAS, the Board has considered the community impacts of the proposed regulation, including environmental justice concerns as well as the social cost of carbon;

WHEREAS, the Board believes the success of California's Cap-and-Trade Program is predicated on GHG regulations that are clear, consistent, enforceable, and transparent;

WHEREAS, entities with legacy contracts that were entered into prior to AB 32 may not have an appropriate mechanism for recovery of GHG costs associated with the Cap-and-Trade Regulation;

WHEREAS, staff proposed a Staff Report: Initial Statement of Reasons-Public Hearing to Consider the Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms (ISOR), with proposed regulatory language as set forth in Appendix A to the Initial Statement of Reasons, released to the public on September 4, 2018;

WHEREAS, the proposed regulatory language was made available to the public at least 45 days prior to the public hearing to consider the proposed regulation, with one subsequent comment period of at least 15 days to add documents to the record and propose additional modifications to the regulatory text;

WHEREAS, on June 15, 2018, the Government of Ontario took official action to revoke its Cap-and-Trade Program, with an effective revocation date of July 3, 2018;

WHEREAS, CARB's regulatory program that involves the adoption, approval, amendment, or repeal of standards, rules, regulations, or plans has been certified by the Secretary for Natural Resources under Public Resources Code section 21080.5 of the California Environmental Quality Act (CEQA; California Code of Regulations, title 14, section 15251(d)), and CARB conducts its CEQA review according to this certified program (California Code of Regulations, title 17, sections 60000-60007);

WHEREAS, CARB prepared a draft environmental analysis for the amended Regulation for purposes of the California Environmental Quality Act under its certified regulatory program (Public Resources Code section 21 080.5) in a document entitled Draft Environmental Analysis prepared for the Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation
(Draft EA), included as Appendix B to the ISOR and circulated for public review for 45 days from September 4, 2018, through October 22, 2018, that assesses the potential for significant long- or short-term adverse and beneficial environmental impacts associated with the proposed action (title 17, California Code of Regulations, section 60005(b));

WHEREAS, the Draft EA concluded that implementation of the Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation has the potential to result in: beneficial long-term impacts to energy demand and greenhouse gases; less-than-significant impacts to aesthetics, agriculture and forest resources, hazards and hazardous materials, population employment and housing, public services, recreation, and utilities and service systems; and potentially significant and unavoidable adverse impacts to air quality, biological resources, cultural resources, geology and soils, hydrology and water quality, land use planning, mineral resources, noise, and transportation/traffic;

WHEREAS, on November 15, 2016, the Board conducted a public hearing to consider the Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation;

WHEREAS, following the public hearing, the Board directed the Executive Officer to make the modified regulatory language and any additional appropriate conforming modifications, available for public comment, with any additional supporting documents and information, for a period of at least 15 days. The Executive Officer was further directed to consider written comments submitted during the public review period and make any additional appropriate conforming modifications available for public comment for at least 15 days, evaluate all comments received during the public comment periods, including comments on the Draft EA, and prepare written responses to EA comments as required by CARB’s certified regulations at California Code of Regulations, title 17, sections 60000-60007 and Government Code section 11346.9(a). The Executive Officer was directed to present to the Board, at a subsequently scheduled public hearing, staff’s written responses to any comments on the Draft EA, along with the Final EA, for consideration for approval, and the finalized Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation for consideration for adoption;

WHEREAS, following the Board hearing, modified regulatory language and supporting documentation were circulated for 15-day public comment period, with the changes to the originally proposed text clearly indicated, according to provisions of California Code of Regulations, title 1, section 44 and Government Code section 11340.85, from November 15, 2018, through November 30, 2018;

WHEREAS, staff reviewed written comments received on the Draft EA during the initial 45-day comment period and subsequent 15-day comment period and prepared the Final Environmental Analysis Prepared for the Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation (Final EA) and prepared written responses to those comments in a document entitled Responses to Comments on the Draft Environmental Analysis
Prepared for the Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation (Responses to EA Comments);

WHEREAS, on December 3, 2018, staff posted on CARB’s rulemaking webpage the Final EA, which includes minor revisions, and the Responses to EA Comments;

WHEREAS, on December 10, 2018, staff posted on CARB’s rulemaking webpage an updated version of the Final EA, which was updated to correct minor typographical errors;

WHEREAS, prior to the duly noticed public hearing held on December 13, 2018, staff provided the Final EA and the Responses to EA Comments, as set forth in Attachments B and C to this resolution, to the Board for consideration;

WHEREAS, a public hearing and other administrative proceedings have been held according to the provisions of Chapter 3.5 (commencing with section 11340), part 1, division 3, title 2 of the Government Code; and

WHEREAS, in consideration of the ISOR, written comments, and public testimony, the Board finds that:

The Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation meet the statutory requirements identified in section 38562 of the Health and Safety Code, including equitable and cost effective distribution of allowances to maximize total benefits to California, minimizing leakage, and cost effectiveness;

The Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation were developed in an open public process, in consultation with affected parties, through numerous public workshops, individual meetings, and other outreach efforts, and these efforts are expected to continue;

The Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation and associated analyses included in the Staff Report meet the requirements of AB 398 and are responsive to Board Resolution 17-21;

No reasonable alternatives to the Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation considered to date, or that have otherwise been identified and brought to the attention of CARB, would be more effective at carrying out the purpose for which the regulation is proposed or would be as effective and less burdensome to affected entities than the proposed regulation; and
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The Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation are consistent with CARB’s environmental justice policies and do not disproportionately impact people of any race, culture, or income.

NOW, THEREFORE, BE IT RESOLVED that the Board certifies that the Final EA, as set forth in Attachment B to this resolution, was completed in compliance with CARB’s certified regulatory program to meet the requirements of CEQA, reflects the agency’s independent judgment and analysis, and was presented to the Board, whose members reviewed and considered the information therein before taking action to adopt the amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation set forth in Attachment A to this Resolution.

BE IT FURTHER RESOLVED that the Board approves the Responses to EA Comments as set forth in Attachment C to this resolution.

BE IT FURTHER RESOLVED that in consideration of the Final EA and the Responses to EA Comments, the Board adopts the Findings and Statement of Overriding Considerations as set forth in Attachment D to this resolution.

NOW, THEREFORE, BE IT RESOLVED that the Board hereby adopts the amendments to the following sections the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms: sections 95802, 95811, 95812, 95813, 95820, 95830, 95831, 95833, 95834, 95841, 95841.1, 95851, 95852, 95854, 95856, 95870, 95871, 95890, 95891, 95892, 95893, 95894, 95911, 95912, 95913, 95914, 95920, 95921, 95942, 95943, 95973, 95974, 95976, 95977.1, 95979, 95981, 95981.1, 95982, 95983, 95984, 95985, 95987, 95990, 96011, 96014, 96021, 96022, Appendix B, and Appendix E, title 17, California Code of Regulations and adopts new sections 95915 and 95989, title 17, California Code of Regulations, as set forth in Attachment A to this Resolution.

BE IT FURTHER RESOLVED that the adopted regulatory text may be further revised with non-substantial or grammatical changes, which will be added to the rulemaking record and indicated as such.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to finalize the Final Statement of Reasons, submit the completed rulemaking package to the Office of Administrative Law, and transmit the Notice of Decision with the Responses to EA Comments to the Secretary of the Natural Resources Agency for posting.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to evaluate and propose amendments, as appropriate in a manner similar to that provided to legacy contract holders with industrial counterparties, for transition assistance to generators with legacy contracts with non-industrial counterparties in the event such legacy contracts remain unresolved for six months following action on this Resolution.
BE IT FURTHER RESOLVED that the Executive Officer will return to the Board with proposed amendments to exempt through 2030 fuel cells connected to existing natural gas infrastructure where there are demonstrated local air quality benefits. The Executive Officer will evaluate and propose any necessary transition assistance for fuel cells that meet these requirements and incur a compliance obligation for emissions years 2018 through 2020.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to work with the existing waste-to-energy facilities on alternative methods for allocation for the purposes of additional transition assistance ending by 2025 that supports waste end use to maximize reductions in methane from the waste sector, including the appropriate role of waste-to-energy facilities. Any potential future amendments to the Cap-and-Trade Regulation resulting from this evaluation shall consider adjustments to the transition allowances provided for 2018 through 2020, as appropriate.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to quantify and report to the Board, by no later than December 31, 2021, the volume of unused allowances from 2013 through 2020, including volumes held in private accounts, and the potential for unused allowances to hinder the ability of the program to help achieve the SB 32 target. The Executive Officer shall hold a public workshop in 2019 to discuss potential methodologies to evaluate this topic.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to monitor the cost containment provisions of the Cap-and-Trade Program, including the placement of the Reserve tiers and price ceiling, and to propose technical adjustments through future rulemaking if needed to further strengthen the cost containment features of the Program.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to include in the annual Board update on the Cap-and-Trade Program implementation information on allowance prices and compliance rates.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to continue collaboration with the California Independent System Operator as any future potential changes may be proposed and implemented for the EIM and propose any amendments as necessary.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to assess the impacts of the climate change program on disadvantaged communities, as required by AB 197, AB 32, and SB 32. As part of the annual report through the Joint Legislative Committee on Climate Change Policies, the Board will present information, to the extent it is available, on direct, indirect and cumulative emission impacts measures taken by local air districts and others to prevent increases in emissions of toxic air contaminants and criteria pollutants.
BE IT FURTHER RESOLVED that the Executive Officer shall convene the Compliance Offset Protocol Taskforce in the first half of 2019, per AB 398 to provide guidance in approving new offset protocols for the purposes of increasing offset projects with direct environmental benefits in the state while prioritizing disadvantaged communities, Native American or tribal lands, and rural and agricultural regions.

I hereby certify that the above is a true and correct copy of Resolution 18-51 as adopted by the California Air Resources Board.

Cristina Granados, Clerk of the Board
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December 13, 2018

Identification of Attachments to the Board Resolution

Attachment A*: Final Regulation Order, Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms: sections 95802, 95811, 95812, 95813, 95820, 95830, 95831, 95833, 95834, 95841, 95841.1, 95851, 95852, 95854, 95856, 95870, 95871, 95890, 95891, 95892, 95893, 95894, 95911, 95912, 95913, 95914, 95920, 95921, 95942, 95943, 95973, 95974, 95976, 95977.1, 95979, 95981, 95981.1, 95982, 95983, 95984, 95985, 95987, 95990, 96011, 96014, 96021, 96022, Appendix B, and Appendix E, title 17, California Code of Regulations and adopts new sections 95915 and 95989, title 17, California Code of Regulations, distributed at the December 13, 2018, Board hearing.


Attachment D*: Findings and Statement of Overriding Considerations, distributed at the December 13, 2018, Board hearing.

*Attachments A, B, C, & D are NOT attached to the proposed resolution; they are simply described on this page.