

California Cap-and-Trade Program First Triennial Compliance Obligation on November 2, 2015

California Air Resources Board
August 26, 2015



Cap-and-Trade Compliance Terminology

- Compliance Obligation: a compliance obligation is the quantity of verified reported emissions or assigned emissions for which an entity must surrender compliance instruments.
 - Annual Compliance Obligation: a compliance obligation requiring the surrender of 30 percent of an entity's compliance obligation for the covered emissions of the previous year within the current compliance period.
 - Triennial Compliance Obligation: a compliance obligation requiring the surrender of 100 percent of an entity's compliance obligation for a compliance period, less compliance instruments previously retired to fulfill annual compliance obligations within the compliance period.
- Surrender: To transfer compliance instruments into a Compliance Account to be available to be surrendered to fulfill a compliance obligation.
- Retire: During the surrender process for each annual and triennial compliance obligation, CITSS identifies eligible compliance instruments and retires them in the order specified by the Regulation.



Cap-and-Trade Compliance (1)

- For every ton of CO₂e emissions your entity emitted from 2013-2014, you must surrender one compliance instrument on or before November 2, 2015.

Example

- Entity A emitted 100,000 tons of CO₂e in 2013 and another 100,000 tons of CO₂e in 2014.
- Obligation: 200,000 compliance instruments.



Cap-and-Trade Compliance (2)

- Only vintage 2013-2014 allowances and offsets (up to 8%) may be used for compliance
- Some entities will be allocated a True-up allowance amount and will receive allowances with 2016 vintage which can be used for compliance
 - Entities may also have 2015 vintage “true-up” allowances which can cover 2013-2014 emissions
- Instruments must be in your Compliance Account in the Compliance Instrument Tracking System Service (CITSS) for them to be surrendered
- Failure to surrender on time will result in a new, untimely surrender obligation of four times the entity’s missing balance



Cap-and-Trade Compliance (3)

- Entity must have a CITSS account to hold, transfer, and surrender compliance instruments
- To comply, account representatives must transfer a sufficient number of compliance instruments from their General Account to their Compliance Account
- ARB will automatically remove instruments from the Compliance Account to satisfy the triennial compliance surrender obligation due on November 2, 2015 by 5 p.m. Pacific Time.



Important Dates

Date	Event
October 6, 2015	Reserve Sale
October 26, 2015	Allocation
Late October, 2015	2014 Emissions and Obligation available in CITSS
November 2, 2015	Compliance Deadline (5PM Pacific Time)



Eligible Compliance Instruments

Compliance Instrument	Vintage	Eligible?
Allowance	2013	Yes
Allowance	2014	Yes
Offset	N/A	Yes, up to 8%

- Eligible compliance instruments for 2013-2014 compliance phase are no longer sold at auction.
- Information on availability of compliance instruments:
 - www.arb.ca.gov/cc/capandtrade/complianceinstrumentreport.xlsx



“True-Up” Allowance Amount

- Allocation is distributed one year in advance based on expected production
- Verified production data may reveal under-allocation
- In those cases, entities will receive vintage 2016 allowances equal to the true-up allowance amount this year which can be used to cover the triennial compliance obligation
 - Depending on changes in production, true-up might be a positive or negative value
 - Vintage 2015 true-up allowances can also be used to cover triennial compliance obligation
- Only the entity that qualifies for “true-up” allowances during allocation can use them for compliance



CAISO Regulatory Requirements

- The California Independent System Operator (CAISO) value applies to an entity that meet the following requirements:
 - Is an electrical distribution utility that receives an annual allocation of allowances;
 - Does not consign all allocated allowances to auction (i.e., does not have ARB place all allocated allowances in its limited-use holding account); and
 - Sells power for which it has a compliance obligation into CAISO markets.
- These entities are required to purchase and surrender eligible compliance instruments equal to the compliance obligation associated with the power sold into CAISO markets.



Retirement Order

- Compliance instruments will be retired in the following order:
 - 1) Offset Credits
 - 2) Allowances from Allowance Price Containment Reserve Sale (none purchased yet)
 - 3) Previous Year Vintage Allowances
 - 4) Current Year Vintage Allowances provided for “True-Up” Allowances



Triennial Compliance Obligation*

- 30% of 2013 covered emissions have already been covered

Example: MegaPower Corp.

Verified 2013 emissions	Annual Compliance Obligation
100,000	30,000

- Remaining 70% is due at end of the first compliance period surrender event
 - November 2, 2015

* Please note that the 1st Compliance Period only includes 2013-2014 emissions



Example

MegaPower Corp	Compliance Instruments
Verified 2013 emissions	100,000
Verified 2014 emissions	100,000



Example

MegaPower Corp	Compliance Instruments
Verified 2013 emissions	100,000
Verified 2014 emissions	100,000
Compliance Obligation November 3, 2014	- 30,000



Example

MegaPower Corp	Compliance Instruments
Verified 2013 emissions	100,000
Verified 2014 emissions	100,000
Compliance Obligation November 3, 2014	- 30,000
Total Remaining Obligation	170,000



Calculating Maximum Offset Usage Annual Compliance Obligation

MegaPower Corp	Compliance Instruments
2013 emissions to be covered	100,000
8% Max Offset Usage	8,000
Offset Used in 2013 by transferring to Compliance Account	8,000
Remaining 2013 Offset Usage Limit	0
Number of Allowances Used to Meet 2013 Obligation	22,000



Calculating Maximum Offset Usage for Triennial Compliance Obligation

MegaPower Corp	Compliance Instruments
Verified 2013 emissions	100,000
Verified 2014 emissions	100,000
8% Max Offset Usage	16,000
Offset Used in 2013 by transferring to Compliance Account	8,000
Remaining 2014 Offset Usage Limit	8,000
Number of Allowances Needed to Meet 2013-2014 Obligation	162,000



Application of the 8% Offset Usage Limit

- Annual (example 2013 emissions = 100,000 MT CO₂e)
 - November 3, 2014: compliance obligation = 30,000 MT CO₂e
 - Max offsets retired = $.08 \times 100,000$ (8,000)
- End of Compliance Period (2014 emissions = 100,000 MT CO₂e)
 - November 2, 2015: compliance obligation = 200,000 MT CO₂e
 - Max offsets for compliance period = $.08 \times 200,000$ (16,000)
 - Max offset retired in 2015 = 8,000 (16,000 – 8,000)
- Alternate – Entity does not use max limit for 2014 Annual Obligation
 - Annual offsets retired in 2014 = 1,000
 - Remaining offset usage limit for triennial compliance period in 2015 = 15,000 (16,000-1,000)



Eligible Allowances for Triennial Compliance Obligation

- First Compliance Period Obligation = 2013 verified emissions + 2014 verified emissions

First Compliance Period			
Covered Emissions Year	Compliance Obligation Due Date	Percent of Compliance Obligation Due	Eligible Vintage of Allowances
2013	November 3, 2014	30% of 2013 covered emissions	Vintage 2013 plus true-up
2014	November 2, 2015	70% of 2013 and 100% of 2014 covered emissions	Vintages 2013, 2014, plus vintage 2015-2016 true-up



Consequences of Untimely Surrender

- Failure to surrender the required number of allowances by the due date will result in automatic obligation increase of 4 times outstanding obligation

MegaPower Corp	Compliance Instruments
Verified 2013 emissions	100,000
Verified 2014 emissions	100,000
Remaining Compliance Obligation November 1, 2015	170,000
Eligible Compliance Instruments Transferred to Compliance Account this November	160,000
Insufficient # Compliance Instruments	10,000
Untimely Surrender Obligation	40,000

- Untimely surrender obligation due within 5 days of settlement of the first auction or reserve sale, whichever is later, following the applicable surrender date.



Potential Enforcement for Missing Compliance Surrender Deadline

- Failing to surrender a sufficient number of compliance instruments constitutes a separate violation for each required compliance instrument that has not been surrendered
- For example, if MegaPower Corp fails to surrender 10,000 of the 40,000 compliance instruments due per the untimely surrender obligation requirement, each of those 10,000 instruments constitutes a separate violation of the regulation
- ARB may then initiate enforcement procedures



Next Steps

- If not in CITSS, register your entity ASAP
- Ensure data reported under the Mandatory GHG Reporting Regulation is verified by September 1, 2015
- Participate in CITSS 6.0 training – mid-September
- Review official compliance obligation for 2013-2014 emissions in CITSS – early October
- **Transfer** enough eligible compliance instruments to your CITSS compliance account by 5 pm Pacific Time on November 2, 2015



More Information

- Technical CITSS compliance webinar, coming up next
- More information about using CITSS can be found here:
<http://www.arb.ca.gov/cc/capandtrade/markettrackingssystem/markettrackingsystem.htm>
- General information about our Cap-and-Trade Program can be found here:
<http://www.arb.ca.gov/cc/capandtrade/capandtrade.htm>
- Auction information, including past webinars, is available on this page:
<http://www.arb.ca.gov/cc/capandtrade/auction/auction.htm>



Questions?

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