

# California Cap-and-Trade Regulation



---

PROPOSED 45-DAY 2018 AMENDMENTS

INDEPENDENT EMISSIONS MARKET ADVISORY COMMITTEE

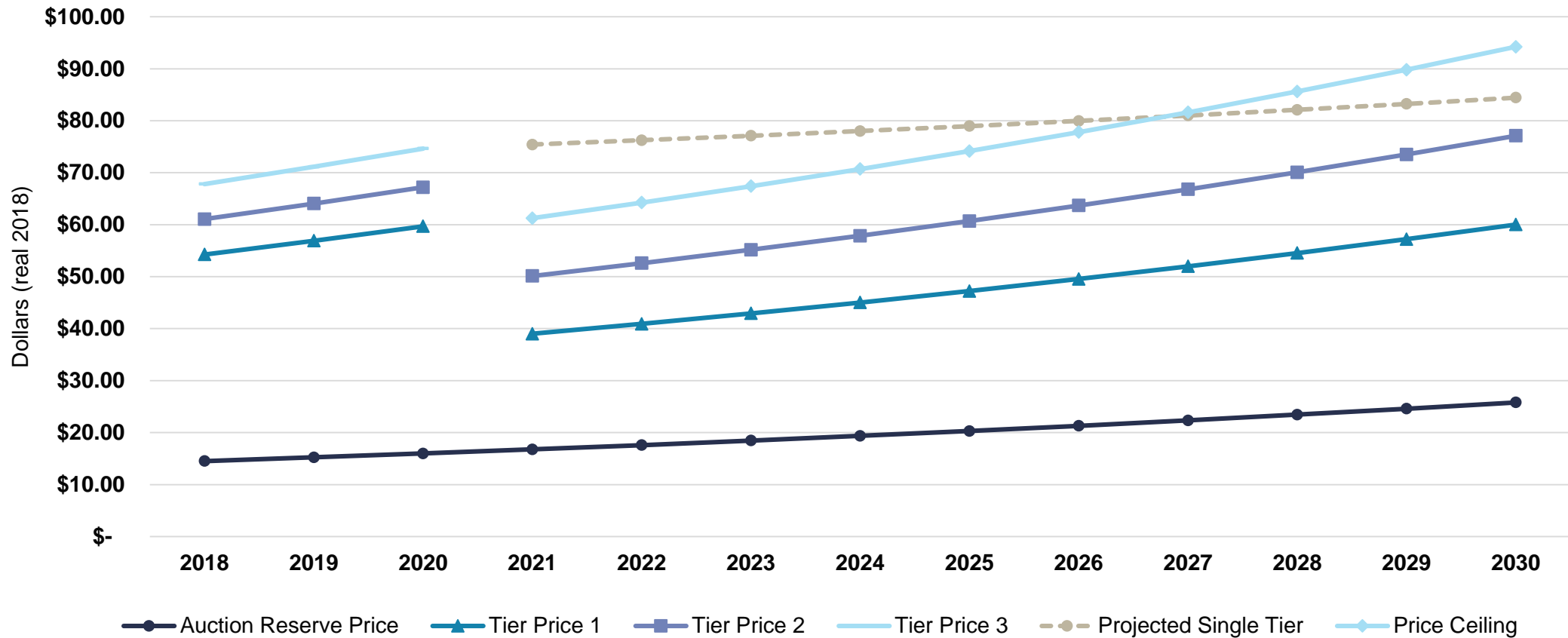
SEPTEMBER 21, 2018

# Background on Key 2018 Amendments

---

- Conform to AB 398 legislative direction
  - Add price ceiling and two allowance price containment reserve (Reserve) tiers
  - Reduce offset usage limit post-2020
  - Implement “Direct Environmental Benefits” for offsets
  - Post-2020 industry assistance factors
  - Evaluate banking rules and post-2020 caps
- Board Resolution 17-21
  - Post-2020 cap adjustment factors
  - Compliance period 3 industry assistance factors

# Proposed Price Ceiling and Reserve Tiers



# Proposed Offset Amendments

---

- Reduce offset usage limits
  - Calendar years emissions for 2021 and 2025 have an offset usage limit of 4 percent for compliance
  - Calendar years emissions for 2026 and 2030 have an offset usage limit of 6 percent
- Direct Environmental Benefits
  - The reductions or avoidance of emissions of any air pollutant in the state or reduction or avoidance of any pollutant that could have an adverse impact on waters of the state
  - No more than one-half of the offset usage limit may be sourced from projects that do not provide direct environmental benefits in the state

# Proposed Offset Amendments, cont.

---

## Implementing “Direct Environmental Benefits”

- Performance standard for projects located within the state or sourced with gases from within the state
  - Consistent with approach to implement additionality and other eligibility criteria
  - Criteria is established by project type and if projects conform to all protocol requirements, they are determined to meet all offset-related criteria
- Case-by-case review for projects located out-of-state or sourced with gases from out-of-state
  - Burden is on these project developers to demonstrate how the project meets the requirements of “direct environmental benefits”
  - CARB staff reviews submitted information and makes a determination

# Proposed Allocation Related Amendments

---

- Sets the industry assistance factors in the third compliance period to 100 percent
- Sets the industry assistance factors for 2021 through 2030 to 100 percent
- Cap adjustment factors set at lower rate of decline for certain sectors that meet following criteria
  - Process emissions > 50% of total emissions (CBI)
  - Emissions intensity > 5,000 MTCO<sub>2</sub>e/\$M value added
  - High leakage risk classification

# Staff Evaluation of Banking Rules and “Over-allocation”

---

## Appendix D – evaluation through a series of focused questions

- Does the design of the Cap-and-Trade Program support a steadily increasing carbon price signal to prompt the needed actions to reduce GHG emissions?
- Are the pre- and post-2020 caps set appropriately given the Cap-and-Trade Program’s role in achieving the statewide GHG reduction targets when taking into account complementary policies?
- Does California need to make adjustments to its Cap-and-Trade Program to address potential “over-allocation” similar to actions taken in the European Union Emissions Trading System and Regional Greenhouse Gas Initiative?
- Is there any evidence that future allowance prices would not continue to steadily increase to prompt the needed actions to reduce GHG emissions?
- What would happen if caps from 2021 through 2030 were reduced in response to concerns about unused allowances from 2013 through 2020?

# Implications of Proposed Amendments

---

- Increase compliance costs and costs to consumers
  - Reduction in offset usage limits
  - Limits on offsets that don't meet definition of direct environmental benefits
- Reduce compliance costs and costs to consumers
  - Introduce two new Reserve tiers of allowances at prices below the existing post-2020 single Reserve tier
  - Add price ceiling that balances across AB 398 criteria
  - Continue to allow limited banking
  - No removal of unused allowances or reductions to the post-2020 caps
  - Increase in assistance factors to 100 percent from 2018 through 2030



# Next Steps

---

- 45-day comment period ends October 22, 2018
  - <https://www.arb.ca.gov/regact/2018/capandtrade18/capandtrade18.htm>
- First board hearing October 25 -26
- Early-November potential 15-day package
- Second board hearing December