OVERVIEW OF

ARB Emissions Trading Program

AB 32 requires California to return to 1990 levels of greenhouse gas emissions by 2020. All programs developed under AB 32 contribute to the reductions needed to achieve this goal, and will deliver an overall 15% reduction in greenhouse gas emissions compared to the 'business-as-usual' scenario in 2020 if we did nothing at all.

The cap and trade program is a key element in California's climate plan. It sets a statewide limit on sources responsible for 85 percent of California's greenhouse gas emissions, and establishes a price signal needed to drive long-term investment in cleaner fuels and more efficient use of energy. The program is designed to provide covered entities the flexibility to seek out and implement the lowest-cost options to reduce emissions.

Scope

- Program covers about 350 businesses, representing 600 facilities
- Starts in 2013 for electric utilities and large industrial facilities
- Starts in 2015 for distributors of transportation, natural gas and other fuels
- Designed to link with similar trading programs in other states and regions

The cap

- Set in 2013 at about 2 percent below the emissions level forecast for 2012
- Declines about 2 percent in 2014
- Declines about 3 percent annually from 2015 to 2020

Allowances

- Large industrial facilities
- Start with free allocation but must buy auctioned allowances later in program
- Allowances for each industrial sector to be set at about 90 percent of average emissions, based on a benchmark that rewards efficient facilities
- Distribution of allowances to be updated annually for industries according to the production and efficiency of each facility
- Electric utilities
- Free distribution, with value of allowances to benefit ratepayers
- Allowances to be set at about 90 percent of average emissions computed from recent data

Cost containment and market flexibility mechanisms

- Trading allowances allowed, to minimize cost of pollution controls
- Banking of allowances, to guard against shortages and price swings
- 4 percent of allowances will be held in a strategic reserve, to contain costs
- Three-year compliance periods, to buffer annual variations in product output

Offsets

- Allowed for up to 8 percent of a facility's compliance obligation
- Limited to emission-reduction projects in U.S.
- Initially restricted to projects in four areas: forestry, urban forestry, dairy digesters, and destruction of ozone-depleting substances
- Offsets must be independently verified
- Provisions to credit offsets registered with entities outside ARB
- Framework for future inclusion of international offset programs

Emissions reporting and verification

- Capped industries must continue to report emissions annually (as required since 2008)
- These industries must register with ARB to participate in emissions trading market
- Independent third-party verification of reported emissions

Compliance and enforcement

- Every year, capped industries provide allowances and offsets for 30 percent of previous year's emissions
- Every three years, these industries provide allowances and offsets covering the remainder of emissions in that three-year compliance period
- If deadline is missed or there is a shortfall, four allowances must be provided for every ton of emissions that was not covered in time
- The program includes mechanisms to prevent market manipulation

Next Steps:

- January 1, 2012: Cap-and-trade regulation becomes effective.
- August and November, 2012: first auctions will be held.
- January 1, 2013: Compliance obligation for greenhouse gas emissions begins.

For More Information

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