

Engineering and Operations Committee

Item #6b

Subject: Update on California Cap and Trade Regulation

Purpose: To provide an update on the implementation of the California Air Resources Board's Cap and Trade Regulation

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Summary

This presentation provides an update on the status and impacts of the Cap and Trade Regulation that is being implemented by the California Air Resources Board.

The Cap and Trade Regulation is one of the measures to achieve a reduction of California green house gas emissions to 1990 levels by 2020 as required by AB-32, the California Global Warming Solutions Act of 2006.

Under the Cap and Trade Regulation, Metropolitan would be required, starting in 2013 to acquire and surrender allowances to cover the emissions associated with supplemental non-hydroelectric energy imported into California to power the Colorado River Aqueduct pumps.



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November 7, 2011

Cap and Trade Background

- December 2010 – CARB adopted regulation
 - Directed staff to make changes – two 15-day packages
- October 20, 2011 – CARB adopted final regulation and resolution
- Key elements of cap and trade
 - Regulates greenhouse gases (GHGs) – direct & imports
 - Cap declines over time
 - GHG emissions covered by allowances and offsets
 - Acquire & surrender allowances
 - Prices of allowances driven by market

CARB Hearing and Water Issues

- CARB staff presentation
 - Allowance allocation - water agencies will not receive free allowances
- Testimony provided
 - Metropolitan – exemption, defer until water sector measures developed, consider for free allowances
 - SDCWA - exemption, free allowances for Metropolitan
 - State Water Contractors – inequities, allowance allocation unfair
 - Others of interest – electric utilities, public sector
- Board deliberation – amended Resolution
- Adoption of Final Regulation and Resolution

CARB Resolution and Water Issues

- Resolution justifies inclusion of water supply in cap and trade program
- CARB wants to use water rates to incentivize:
 - Water conservation
 - GHG efficient technologies
 - Efficient supply & use of water
- CARB wants water rates to reflect cost of GHG emissions associated with water operations

CARB Resolution – Direction to Staff

- Board directs CARB Executive Officer to continue discussions with stakeholders on potential regulatory amendments (including free allowances)
 - “Distribution of allowance value associated with cap and trade compliance costs from using electricity to supply water, and the expected ability of allowance allocation and other measures to adequately address the incidence of these costs equitably across regions of the state.” (pages 10-11)

Timeline for Implementation

- October 27, 2011 – CARB sent package to Office of Administrative Law (OAL)
- December 2011 – OAL decision expected
- 2012 – CARB deploys program infrastructure
- 2013 – First compliance period
- Covered entities
 - Register and report to CARB
 - Acquire allowances/offsets (compliance instruments)
 - Surrender compliance instruments to match emissions
 - Comply with recordkeeping, reporting, verification and other regulatory provisions

Next Steps

- Review final regulatory package and resolution
- Work jointly with State Water Contractors to follow up on implementation of resolution with
 - CARB Board Members
 - CARB Executive Officer
 - CARB Staff

