

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 and Metropolitan's coverage under the 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 is considered a covered entity, and is required, starting in 2013, to acquire and surrender allowances to cover emissions associated with supplemental non-hydroelectric energy imported into California to power the Colorado River Aqueduct pumps.



Update on California Cap and Trade Regulation

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October 8, 2012

AB 32 – California Global Warming Solutions Act of 2006

- Reduce greenhouse gas (GHG) emissions to 1990 levels by 2020
- Under jurisdiction of California Air Resources Board (CARB)
- CARB Scoping Plan
- Cap and Trade Program

Cap and Trade Program Details

- GHG are reported and regulated, including emissions associated with imported electricity
- Emissions of GHG to be covered with allowances
- Number of available allowances capped and declines each year
- Allowances obtained through auction or trades
- Price of allowances set by market
- Effect on Metropolitan

Metropolitan's Actions

- Provided comments and testimony during regulatory development
- Meetings with CARB staff, executives and board members
- Coordinated with the State Water Contractors
- Discussions with Legislators and Administration
- Participated in legislative initiatives
 - August 27 letter from CARB Chair Mary Nichols

Recent Cap and Trade Activity

- October 20, 2011 - CARB adopted final regulation and resolution
- December 2011 - Office of Administrative Law (OAL) approved regulation
- August 2012 - OAL approved amendments
- August 30, 2012 - CARB practice auction
- November 14, 2012 - First official auction
- January 2013 - Compliance obligation starts

CARB Practice Auction

- August 30, 2012
- Suspended normal registration requirements for personal information and financial guarantees
- Metropolitan staff participated - 121 bidders
- Offered two separate auctions
 - 2013 vintage allowances
 - 2015 vintage allowances
- Tested the auction platform
- Bidding process - no validation of bids
- Limited post-auction information

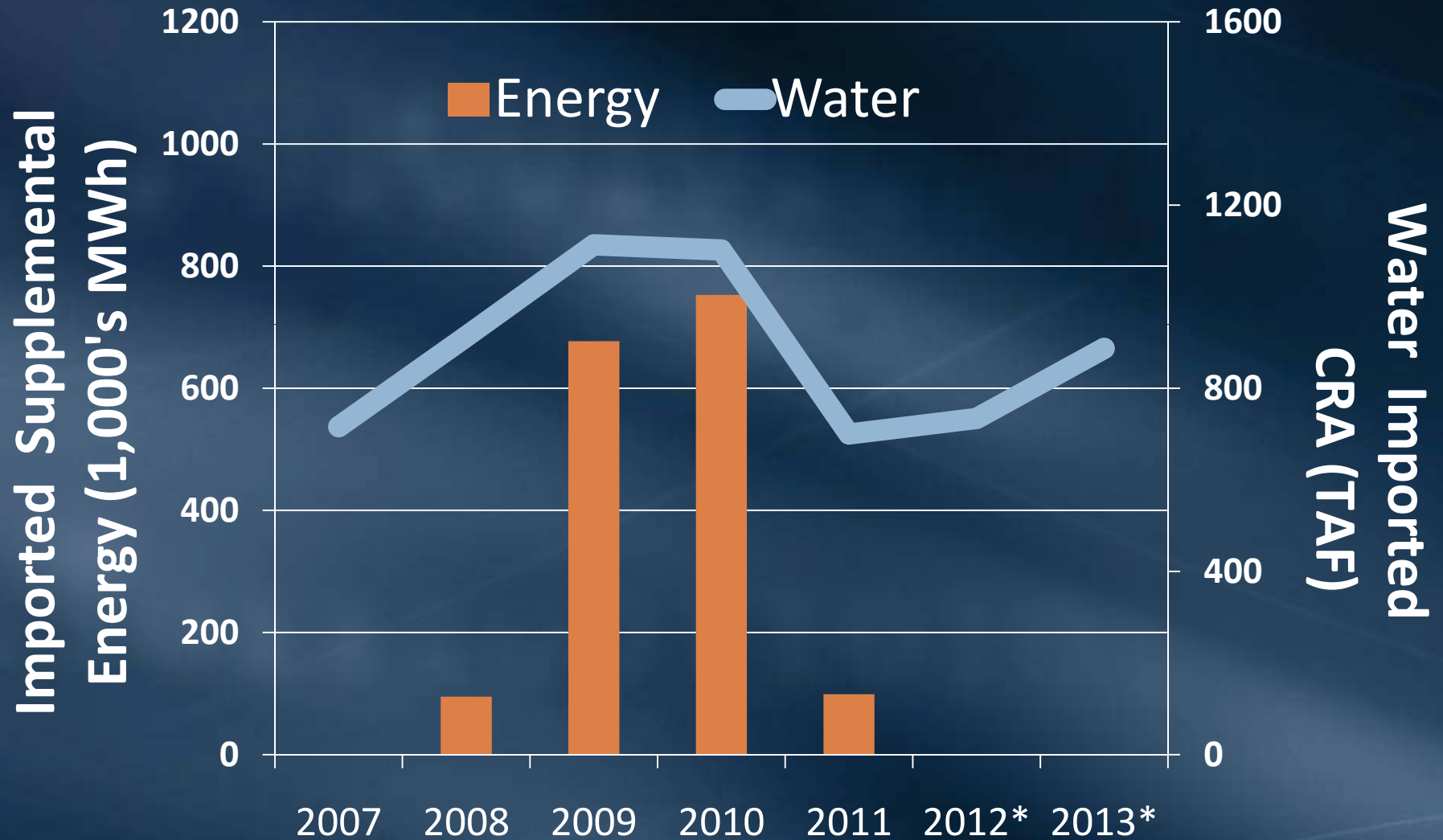
Auction Settlement Price

- Settlement price is the price all successful bidders will pay for allowances as determined through the auction process
- How settlement price is determined
 - CARB sorts all bids by price in descending order
 - CARB starts with highest bid price, and proceeds to successively lower bid price
- Scenarios for final settlement price
 - Lowest bid price that exhausts available allowances; or
 - Last bid price if allowances still available

First Official Auction – November 14

- Metropolitan not participating
- Two auctions conducted simultaneously
 - 20 million 2013 vintage allowances
 - 40 million 2015 vintage allowances
 - Offered in blocks of 1000 allowances
- Allowances valid for vintage year or later
- Designed to prepare entities for future compliance obligations and give price signals
- CARB will hold quarterly auctions starting 2013

Imported Supplemental Energy



* Projected

Current Status

- Metropolitan remains a covered entity
- No compliance obligation expected in 2013
- First compliance obligation potentially in 2014
- Continue planning and analysis activities
 - Timeline and costs for allowance acquisition
 - Sources of allowances – auction, broker, other
 - Registration and financial requirements
- Schedule meeting with CARB

Metropolitan's Position

- MWD and DWR should receive an allocation of auction revenue
- The amount of the allocation should be equivalent to the cost impact of AB32
- The funds would be used to reduce greenhouse gas emissions

Next Steps

- Refine Metropolitan/State Water Contractors strategy for negotiations with CARB
- Begin negotiations with CARB
- Monitor auction activities and market response
- Assess alternative compliance strategies