LARC
Los Angeles Regional Collaborative
for Climate Action and Sustainability

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c/o UCLA Institute of the Environment and Sustainability
La Kretz Hall, Suite 300, Los Angeles, CA 90095

California's Cap-and-Trade Program

Legislation regarding Statewide Greenhouse Gas (GHG) Reduction

2006
AB 32: California Global Warming Solutions Act

2008
SB 375: Sustainable Communities and Climate Protection Act

2012
SB 535: Requires at least 25% of auction proceeds to benefit and be invested in Disadvantaged Communities

2012
AB 1532: Establishes public process and directs funds to reduce GHGs and achieve co-benefits (3-year investment plan)

2012
SB 1018: Establishes the GHG Reduction Fund and accountability requirements

2014
SB 862: Implements the cap-and-trade expenditure plan for GGRF, as part of the 2014-15 budget

AB 32: California's Climate Plan

AB 32 requires California to meet 1990 GHG emission levels by 2020. This equals a 15% GHG emission reduction in 2020 compared to the 'business-as-usual' scenario. AB 32 authorized the California Air Resources Board (ARB) to establish a market-based cap-and-trade regulation. The cap-and-trade program (CT) is a key element of California's climate plan because it sets a statewide limit on sources responsible for 85% of the state's GHG emissions. ARB anticipates that cap-and-trade will provide 22.5% of the reductions needed to reach 1990 emission levels.

The Cap-and-Trade Program

The cap-and-trade program sets a firm cap on statewide GHG emissions while employing market mechanisms to achieve the emission reduction goals. This establishes a price signal needed to drive long-term investment in cleaner fuels and more efficient energy use. CT enables the state to reduce GHG emissions from major sources (covered entities). The cap commenced in 2013 and declines over time.

Milestones

The cap-and-trade regulation took effect on January 1, 2012. The first auction was conducted November 14, 2012. The enforceable compliance obligations began on January 1, 2013.

Covered Entities

The CT program covers approximately 350 businesses, representing 600 facilities. Mandatory reporting compliance obligations began in 2013 for electric utilities and large industrial facilities including refineries, cement production facilities, oil and gas production facilities, glass manufacturing facilities, and food processing plants. Fuel distributors, including transportation fuel providers, and natural gas and propane fuel providers, will be covered beginning in 2015.

The Cap

The cap is the limit on emissions set for all the entities covered by the regulation. The cap was set in 2013 at 2% below the emissions level forecast for 2012. The cap declines 2% in 2014 and then about 3% annually from 2015 to 2020.

Allowances

An allowance is a tradable permit to emit one metric ton of a CO2 equivalent GHG emission. The total number of allowances provided annually by ARB is equivalent to the annual allowance budget in the cap-and-trade regulation.

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Major Goals & Targets for GHG Reductions

Global Warming

2020: GHGs reduced to 1990 levels
2050: GHGs 80% less than 1990 levels

Sustainable Communities

2010: ARB set GHG reduction goals for metro areas
2020: Metro areas meet 1st GHG reduction targets
2035: Metro areas meet 2nd GHG reduction targets

Zero Emission Vehicles

2015: Metro areas have infrastructure plans for ZEVs
2020: CA infrastructure supports 1M ZEVs
2025: ARB requires 15% new car sales are ZEVs
2025: 1.5M ZEVs in CA
2050: Transportation GHGs are 80% less than 1990 levels

Renewable Electricity

2013: 20% of electricity from renewable sources
2020: 33% of electricity from renewable sources
2020: 12,000 megawatts of new distributed generation after 2010

Green State Building

2018: State agency energy purchases 20% less than 2003
2020: State agency GHGs 20% less than 2010 levels
2025: 50% state buildings are Zero Net Energy

Solid Waste Reduction

2020: 75% recycling, composting, or source reduction of solid waste

Offset Credits

An offset credit is equivalent to a GHG reduction or GHG removal enhancement of one metric ton of CO2 equivalent GHG emission. The GHG reduction or removal enhancement may only be issued to offset projects using approved Compliance Offset Protocols. Approved protocols are US forest projects, urban forest projects, livestock projects, and ozone depleting substances projects. Both allowances and offset credits are also called "compliance instruments" because there are used by covered entities to comply with the CT program.

Compliance Periods

A compliance period is the time frame during which the compliance obligation is calculated. 2013-2014 is the first compliance period; 2015-2017 is the second; 2018-2020 is the third. At the end of each compliance period, covered entities must turn in their compliance instruments, equaling their total GHG emissions in that period.

Auctions

ARB administers and oversees quarterly state auctions, every February, May, August, and November, at which are sold allowances. Two types of allowances are auctioned: current year vintage and future year vintage allowances. Current year allowances are eligible for use starting in the year they were auctioned; future year allowances may not be used for compliance until their vintage year.

Auction Proceeds

All proceeds from the auction of non-utility allowances are deposited into the state's Greenhouse Gas Reduction Fund (GGRF) and must be invested in GHG reductions through low-carbon transportation and infrastructure, planning for sustainable infrastructure, energy efficiency and clean energy, natural resource conservation, and solid waste diversion. Pursuant to SB 535, 25% of the auction proceeds must be spent on programs that benefit disadvantages communities. Auction proceeds from publicly-owned utilities are in a separate bucket and must be used for the exclusive benefit of their ratepayers.

Allocating Funding

The "implementing legislation" (AB 1532, SB 1018, and SB 535) established a 2-step process for allocating funding to State agencies. First, the Department of Finance submits a 3-year investment plan to the Legislature identifying priority investments to help achieve GHG reduction goals. Updates to the investment plan are developed every 3 years and submitted to the Legislature with the release of the Governor's January budget proposal. Second, through the annual budget, funding is appropriated to State agencies by the Legislature, consistent with the 3-year investment plan submitted by the Administration.