



# The Frontier Carbon Market: California Releases AB 32 Rules

The proposed regulations are out, and **John Battaglia** with Evolution Markets' West Coast Carbon Markets Team gives an overview of the rules and insight on trading and managing risk in the nascent market.

*On October 28th, the California Air Resources Board (ARB) released a 472 page document named "Proposed Regulation to Implement the California Cap-and-Trade Program". The document is the result of the regulatory agency's mandate to formulate a program to help reduce greenhouse gas emissions in the state to 1990 levels by 2020. These goals are the central element of California's ambitious climate law known as AB 32. ARB began work on the rules in 2006, and if adopted by the Board in December, they will lay the groundwork for the United States' largest (and the world's second largest) carbon trading market.*

*This edition of Evolution Markets' Executive Brief reviews the proposed regulations and provides Evolution Markets' perspective on California's emerging and politically vital carbon market. It details how firms are using carbon offsets trading to either hedge financial risk or invest capital in carbon reductions. In addition, this article will provide commentary on market activity, including volume, pricing, and a short term outlook, offering a roadmap for the United States' Frontier Carbon Market.*

## Commitment to Cost-Containment: Free Allocation

Since 2006, ARB has been designing a program that will establish a declining cap on greenhouse gas emissions in the state starting in 2012 and utilize a trading market for carbon allowances and carbon offsets.

From its initial design documents and early public statements, ARB appears to have made important concessions in the proposed rules designed to control costs of the program to consumers. Most importantly, it now appears California has decided to back off a 100% auction of allowances, as previously recommended, embracing an approach to control the risks of emission leakage and significant economic gains/losses early in the program. (Note: a full overview of the proposed regulations is available in **APPENDIX I** at the end of this Executive Brief.)

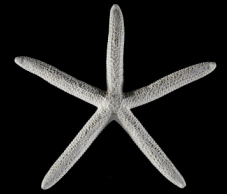
While independent power generators must purchase all of their required allowances at quarterly auctions, the proposed rules call for electricity distribution utilities (investor-owned utilities and publicly-owned utilities) to receive a 100% "administrative free allocation." Under this approach, the ARB would allocate greenhouse gas allowances directly to retail power providers, which would then be required to sell allowances in quarterly auctions. The proceeds would be used to offset higher energy costs to consumers.

One big question in this scheme remains: what approach will ARB take to allocate the allowances? ARB could choose grandfathering, which bases allocation on historical emissions or use a function of the sector's output (i.e. power sales). The answer to this still unanswered question will have significant impacts on which firms in the electricity sector end up net short or long in the allowance market when the program starts in January 2012.

Because several of these sectors compete with non-California firms without carbon exposure, the ability to pass through the cost of carbon in the price of their manufactured goods is more difficult. This difficulty poses emission leakage risk; risk that a business will be forced to leave California due to the cost of carbon. Therefore, industrial facilities such as cement, refineries, or mining/minerals will receive allowances free at the outset of the program.

In the first compliance period of the program (2012-2015), industrial facilities will receive free allocation based on an updating output-based method combined with an emissions efficiency benchmark. Industrial sectors that have low to medium emissions leakage risk, as classified by the ARB, will receive fewer free allowances in the second (2015-2017) and third (2018-2020) periods.

For both the electricity and industrial sectors, exactly how these allocations will be distributed on a facility-level basis is expected to be the focal point for ongoing discussions with the regulator over the 45-day comment period leading up to the December ARB vote.



## Cost Containment: Banking, Allowance Reserve

While the shift in approach to a substantially free allocation method is perhaps the greatest show of commitment to cost-containment, there are other significant program design elements that should help lower the costs of program compliance.

The program is split into three, three-year compliance periods, which is intended to smooth variations in emissions year-over-year and provide compliance flexibility. Compliance entities will be required, however, to surrender a minimum of 30% of their annual compliance obligation during the first two years of each phase with the hope of spreading demand out across the phase. Furthermore, compliance entities have the unlimited ability to bank allowances (and offsets) across compliance periods.

Based on price projections discussed by ARB staff, it is expected the price of an allowance will start low and gradually escalate. The ARB acknowledges that certain scenarios, such as dry years in the Pacific Northwest impacting hydro-electric output, could drive California power entities to procure more fossil-based generation. This would push allowance prices higher than current projections.

To contain price spikes, the regulation has specified an Allowance Reserve that would become available to covered entities if the price of carbon hits specific trigger prices (\$40 per metric ton to start). The Reserve would operate similar to the U.S. Federal Reserve's discount window for banks. Only compliance entities would be able to purchase allowances at a fixed price from the Reserve, and they would be released in increasing amounts should prices rise sharply.

## A Robust Offset Program

A small, but economically significant, segment of the California market design will be the creation of a robust carbon offsets market. Carbon offsets will play a crucial role in the program as they provide a lower cost compliance option for capped facilities. For instance, economic analysis by the U.S. Environmental Protection Agency (EPA) asserts that the cost of compliance under proposed Federal climate change programs could be more than two- and a half times greater than with an unrestricted use of offsets.<sup>1</sup> ARB has embraced offsets as containment mechanism, albeit tentatively.

Certain sectors not subject to the carbon cap in California are eligible to reduce their greenhouse gas emissions and create carbon offset credits that can be used for compliance in the program. ARB anticipates that the cost of abatement for the power sector, for instance, could begin around \$80-\$100 per ton. The cost of abatement in the non-capped sectors eligible to generate offsets is typically much lower, creating less expensive opportunities to reduce emissions. For this and other reasons, carbon offsets often trade at a discount to allowances, thereby providing considerable cost savings opportunities for covered entities.

The proposed rules identify four methods for creating offsets in the U.S., including forest preservation, planting of trees in urban areas, destruction of methane from livestock, and destruction of ozone depleting substances (ODS).

ARB has stated that capped facilities will be allowed to use offsets to meet up to 8% of their compliance obligation. This equals roughly 232 million offsets from 2012-2020, or 26 million offsets per annum on average. At a price of \$10 per offset (and assuming the market turnover of two times) this represents a \$4.6 billion market. The 8% limit is fixed over the life of the program, and represents an increase from the 4% limit previously proposed by ARB.

## A Formidable Carbon Market

Allowance allocation and the offsets program will undoubtedly inform trading strategies in what is anticipated to be the largest U.S. carbon market. Elements of the California program such as unlimited banking, expanded use of offsets, and cost containment measures appear to outline a framework for a robust, liquid allowance and offset market.

According to the draft regulations, the California carbon market will be comprised of 2.7 billion allowances from 2012-2020, starting with 165.8 million metric tons of carbon dioxide equivalent (MtCO<sub>2</sub>e) in 2012 under the cap. Based on allowance budgets in 2012 and the auction price floor of \$10 per metric ton<sup>2</sup>, the California allowance market value would be worth \$1.66 billion.

Phase I (2012-2014) will include narrow scope emissions (power + industrial facilities emitting > 25,000 MtCO<sub>2</sub>e), but Phase II (2015-2020) will include broad scope emissions (Phase I emissions + transportation fuels) and could result in a \$3.95 billion market, if the price of carbon remains flat at \$10 per metric ton in 2015.

At an average turnover rate of two times in the allowance market, the value of the California market could increase to twice these respective figures. Considering the European carbon allowance market has a turnover rate of three times the volume of allocated allowances, this is not much of a stretch.

By comparison, 850 million MtCO<sub>2</sub>e traded in 2009 in the Regional Greenhouse Gas Initiative (RGGI) program in the Northeast United States, with a value of more than \$2 billion. Both of these U.S. markets, however, will continue to lag behind the European Emissions Trading Scheme, which saw more than 6 billion MtCO<sub>2</sub>e trade in the allowance market in 2009 for a total value of more than \$118 billion.

Of course, the strength, liquidity, and overall value of a carbon market in California will be determined by the price and volume of allowances traded. This, in turn, will be closely tied to how tight the cap is set and economic activity over the program term. As witnessed in the RGGI market, a pre-recession cap combined with high frequency of auctions (quarterly) can result in a market with limited liquidity and a very lightly traded secondary allowance market. Most agree California's program will follow a different trajectory, with long-term regulatory certainty, the participation of a variety of industry sectors, and steep declines in the overall emissions cap.

## The Emerging Market for Pre-Compliance Carbon Offsets

Market participants have been involved in so-called pre-compliance trading in California virtually since the state legislature passed AB 32 into law in 2006. As the regulatory process has provided incremental clarity, both investors and compliance entities have begun taking market positions. The most often used instrument to take a position in the emerging U.S. carbon market is buying or selling "pre-compliance" carbon offsets. Today's carbon market exists to enable buyers and sellers to transact credits under legally binding bi-lateral purchase and sale contracts with terms of one, three, five and ten years. Most of the volume traded in this new, emerging market takes place in the over-the-counter (OTC) market either directly or through brokerage companies such as Evolution Markets. Although secondary futures contracts exist, a high percentage of the volume is traded in the primary market.

Since 2008, Evolution Markets has structured and executed trades in excess of 15 million metric tons of U.S. pre-compliance carbon offsets bought or sold for the express purpose of hedging or investing in anticipated state,

<sup>1</sup>Source: *Analysis of the Climate Stewardship and Innovation Act of 2007 (July 16, 2007)*, U.S. EPA. <sup>2</sup>It is important to note that ARB has projected prices in the early years of the program range from \$15 to \$20 per ton. We use the auction reserve price here as a conservative mark for comparative purposes.

regional or federal carbon cap and trade programs. The range of historical pricing for these carbon tons ranges from \$0.50 per ton to \$13.00 per ton and represents transactions valued at roughly \$100 million. Market participants on the sell-side of the market include project developers, project owners (i.e. landfill, dairy, landowners, coalmine operators, etc.), aggregators and liquidity providers. The buy-side of the market includes both investors and compliance entities taking positions via spot, forward, option and other customized physically and financially-settled deals in advance of carbon legislation.

The pre-compliance market since 2008 has, for the most part, been a 1.5-2x traded market with limited liquidity and price transparency. At different points since 2008, the market has experienced transaction depth, most notably in 2009 when federal carbon legislation had traction and long-term landfill offset deals were the norm. Since the start of 2010, thinner markets have been persistent with softer pricing than 2009, creating strong buy-side opportunities for the cap and trade bulls looking for value deals. 2010 has also been marked by considerable slippage in prices with sellers motivated by considerable regulatory and political uncertainty. Project types most typically transacted in the domestic pre-compliance carbon market include: landfill gas (LFG) (by far the most liquid offset), livestock methane, forestry, coal mine methane (CMM), and ODS.

As Federal climate legislation stalled and California forged ahead with the promulgation of regulations under AB 32, increasing pre-compliance activity was seen in project types likely to be eligible under the California program. These include livestock methane, ODS, and forestry credits verified under certain protocols established by the Climate Action Reserve (CAR) program that will likely count as early action offsets.

## Market Outlook

While ARB's proposed regulations provide the blueprint for an imminent carbon market in California, including approved offset types, vintages, locations, start dates, etc., there remains some uncertainty on the political survival of the program.

Implementation of AB 32 remains contingent upon the failure on Election Day (November 2nd) of Proposition 23 on the California ballot. This proposition would effectively shelve the carbon program until the State's unemployment figures reach 5.5% for a full year. With current unemployment levels at more than 10%, most believe passage of Proposition 23 would spell an end to carbon trading in California. Various public opinion polls show passage of the proposition to be a long-shot, but true clarity on the state's carbon trading program will have to wait.

Should Proposition 23 be defeated this week, we fully anticipate the market to experience an uptick in pre-compliance trading activity. It is expected that some covered entities will wait until ARB votes to adopt the final regulation in December, but most obstacles to the implementation of AB 32 should be removed with the defeat of Proposition 23 on Election Day.

Leading up to the release of draft regulations, Evolution Markets has already observed an increase in buying in the offset buckets ARB has identified thus far – notably ODS, Livestock and Forestry Climate Reserve Tons

(CRTs). These are new positions being opened largely amongst investors, as well as covered entities in California, either putting on new long positions in advance of the election or physical hedges.

First movers in the post- Election Day market are expected to be investors that have waited out the political rollercoaster that was 2010. With the defeat of Proposition 23, we expect traders to put on long positions in the CRT types outlined in the regulation. Increasingly in the next few months, risk management and hedging strategies will be established with ensuing buying of early action offsets likely amongst the energy sector firms and more progressive industrial facilities. With only 7.5 million CRTs issued to date (a majority of which are landfill gas and not useable for AB 32 compliance), buyers will need to move early in order to lock up forward contracts on physical supplies of offsets. We expect strengthening in pre-compliance offset pricing, more robust demand and increased liquidity in the market.

As for pricing, we could witness a convergence in pricing amongst those offsets identified for compliance by the ARB. Historically, CRTs have traded premium to other voluntary offset protocols largely due to the economics of developing projects. Upon entrance of appreciable natural demand from California's covered entities and continued investor demand, supply-demand fundamentals may once again dictate offset pricing. With increasing price, we would expect to see more offset projects built to meet the early offset credit demand in California. However, we fully anticipate ARB to adopt protocols outside of the four put in front of the Board for a vote in December, as it seems unlikely these protocols can meet anticipated demand alone.

## Conclusions

California stands at the forefront of the U.S. and North American battle for carbon market solutions. When and if the Golden State moves forward with implementing AB 32, this will send the necessary signal to other states and Canadian provinces in the Western Climate Initiative (WCI) that a carbon market is a politically viable solution to a changing climate. Additionally, California would be in a position to once again lead by example, providing direction to the nation on the environmental and economic benefits of cap and trade. We anticipate a broad and inclusive market to bolster robust liquidity and participation from a variety of sectors in the economy. If Proposition 23 fails, we anticipate market sentiment to be a moderate to strong buy in the pre-compliance offsets market. It is very possible that the pre-compliance market participants of 2009 will again trade long term and sizeable positions, but this time it will be for offsets in a California cap and trade compliance market.

**For more information on AB 32 draft regulations, the pre-compliance offset market, or to transact in California carbon markets, contact Evolution Markets Carbon Team at: 415.963.9137 or 914.323.0265.**

*(Please See Next Page for APPENDIX I: Detailed Overview of AB 32 Rules)*

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## APPENDIX I

### OVERVIEW OF ARB PROPOSED CARBON CAP AND TRADE REGULATIONS

#### Program Overview

- January 1, 2012 start date
- Covered sources (covers 85% of State's greenhouse gas emissions)
  - Phase I (2012-2015)
    - Electricity generation, including imports
  - Large industrial sources and processes with annual GHG emission at or above 25,000 MtCO<sub>2</sub>e
  - Imported electricity defined as "First deliverers of electricity to the California electricity grid," and includes both specified and unspecified power, i.e. power marketers
- Phase II (2015-2020)
  - Combustion of gasoline, diesel, natural gas, and propane from sources with emissions below 25,000 MtCO<sub>2</sub>e, including all commercial, residential and small industrial sources
  - Fuels used for transportation
- Participants
  - Covered sources
  - Voluntary participants, including financial institutions, brokers, offset developers, and participants interested in voluntarily retiring allowances
  - Voluntary participants can participate in auctions, but can't purchase from the Allowance Reserve or receive free allocations
  - Non-covered entities, i.e. emissions less than 25,000 MtCO<sub>2</sub>e, can elect to become covered entities, "opt-in covered entities"
- Portion of allowances must be retired annually (to reduce non-compliance risk), with the remaining allowances due following the end of each compliance period

#### Cap

- 2012 - 165.8 million MtCO<sub>2</sub>e
- 2013 - 162.8 million MtCO<sub>2</sub>e
- 2014 - 159.7 million MtCO<sub>2</sub>e
- 2015 - 394.5 million MtCO<sub>2</sub>e
- 2016 - 382.4 million MtCO<sub>2</sub>e
- 2017 - 370.4 million MtCO<sub>2</sub>e
- 2018 - 358.3 million MtCO<sub>2</sub>e
- 2019 - 346.3 million MtCO<sub>2</sub>e
- 2020 ending at 334 million MtCO<sub>2</sub>e
- Total approximate allowances from 2012-2020 equals 2.7 billion

#### Cost Containment Mechanisms

- Three year compliance periods
  - Designed to smooth variations in emissions year-over-year and provide compliance flexibility
  - First period: 2012-2014
  - Second period: 2015-2017
  - Third period: 2018-2020
- Free Allocation (see below)
- Banking
  - Unlimited for both offsets and allowances across compliance periods
- Offsets
  - 232 million MtCO<sub>2</sub>e allowable limit through 2020, which equals 8% of compliance obligation
  - Types of offsets:
    - ARB-issued offset credits for projects using ARB-approved protocols
    - Early action offsets, i.e. CRTs
    - ARB-recognized offsets credits
      - REDD credits
      - Offsets from linked programs, i.e. WCI

- Allowance Reserve (see below)
- Linkage
  - Designed to link with other programs, but current regulation does not allow for linkage. Framework is established for linkage
  - Staff anticipates bringing recommendations to the Board in 2011 for potential linkage with New Mexico, British Columbia, Quebec and Ontario
  - Exploring the potential for linkage with the Regional Greenhouse Gas Initiative and the Midwest Greenhouse Gas Accord

#### Allocation

- Industrial Sector
  - Updating output-based free allocation methodology combined with an emissions efficiency benchmark used to freely allocate allowances to the industrial sector; designed to reward continued in-state production and level the playing field with out of state production
  - Emission efficiency approach will reward more efficient facilities on an emission-per-unit-of-output basis
  - All industrial sectors will receive 100% free allocation in Phase I
  - Medium and Low emissions leakage risk facilities will decline to 50-75% free allocation over Phase II
- Electrical Distribution Utilities
  - 100% free allocation to entities providing retail electricity to California ratepayers, including Investor-owned utilities (IOUs) and publicly-owned utilities (POUs)
  - Approach based on a variety of factors, not clearly defined in the regulation including, retail sales, historical emissions, expiration dates for existing coal PPAs, renewable energy procurement, etc.
- IOUs
  - Allocation must be sold at the quarterly general auctions and the proceeds used to further achieve the goals of AB 32
  - Unsold allowances must be held for sale subsequent auctions
  - IOUs will have a compliance obligation for the emissions resulting from generation it operates
  - IOUs will, therefore, be required to purchase allowances for these emissions at the quarterly auction
- POU's
  - Option to either sell free allocation of allowances at the quarterly auction or used directly to meet their compliance obligation
- Generators
  - No free allocation; generators will have to purchase the entirety of allowances at the quarterly auction

#### Auction

- Overview
  - First auction is February 2012; quarterly auctions based on the calendar year, thereafter
  - One quarter of the allowances for that budget year will be auctioned, plus a portion of future vintage year allowances (similar to RGGI)
  - Allowances sold in 1,000 unit bundles
  - No restriction on who can participate; includes covered entities, opt-in entities and voluntarily associated entities
  - Single-round, sealed bid auction format

- No restrictions on the number of bids submitted by any one entity
- Auction operator awards allowances to the highest bidder first, then to the next highest bidder and so on until all allowances are awarded
- No allowances will be awarded below the Reserve Price of \$10 per metric ton
- Auctions conducted by ARB or a third party
- Purchase Limits
  - Covered entities and opt-in entities = 10% of allowances being auctioned (IOUs exempted from this limit)
  - Voluntarily associated entities = 4% of allowances being auctioned

#### Allowance Reserve

- The Reserve will be filled:
  - At the beginning of the program with a portion of the overall allowances from each budget year as follows:
    - 1% of overall allowances from 2012-2014
    - 4% of overall allowances from 2015-2017
    - 7% of overall allowances from 2018-2020
  - With ARB allowances that remain unsold at the direct auction
  - With allowances surrendered to comply with excess emissions
- Availability
  - 1/3 of the Reserve available @ \$40 per ton
  - 1/3 of the Reserve available @ \$45 per ton
  - 1/3 of the Reserve available @ \$50 per ton
- Prices will escalate by 5% + the cost of inflation each year, such that the Reserve prices are approximately \$60 per ton, \$67 per ton, and \$75 per ton in 2020
- Purchased allowances from the Reserve may only be used for compliance use, i.e. directly transferred into the covered entities Compliance Account

#### Offsets

- ARB-issued offsets
  - Initial Protocols (currently submitted for Board approval)
    - U.S. Forest Projects Protocol
    - Livestock Manure (Digester) Projects Protocol
    - Urban Forest Projects Protocol
    - U.S. Ozone Depleting Substances Projects Protocol
  - Future protocols will be reviewed and adopted, including those already developed by third parties
  - Geography
    - Program allows for North America (U.S., Canada, Mexico), BUT the protocols going before the Board in December are U.S. only
  - Requirements for additionality
    - Not required by law, regulation, consent order, ordinance or any other type of legal requirement
    - Not common practice or would not have occurred under a business-as-usual scenario
    - Not commenced prior to January 1, 2007
    - Exceed a project baseline calculated by a protocol for an offset project of that type
  - Crediting periods
    - Non-sequestration project – between 7 and 10 years (can be renewed twice, subject to additionality)
    - Sequestration project – between 10 and 30 years (unlimited renewal, but not to exceed 100 years)

- Initial and renewed crediting period; project may continue to meet additionality requirement and therefore, would be eligible for renewed crediting periods
- ARB enforceability of offsets (Buyer Liability)
  - Reasons ARB could invalidate offsets and make buyer liable for replenishment under these conditions:
    - Fraud or malfeasance on behalf of the project developer, third party verifier, verification bodies, or others involved in producing documentation use do support offset credit issuance, and
    - A reversal in the forestry sector
  - If a credit is invalidated and has been used for compliance or retired, it must be replaced within 30 days by the entity that retired or used them for compliance
  - ARB believes third party contractual agreements should be used to address liability
- Registration of credits
  - ARB will perform credit issuance with provisions for third parties to fulfill some responsibilities subject to ARB oversight
  - ARB also proposes to take on the following responsibilities:
    - Approval of protocols
    - Review and listing projects
    - Overseeing monitoring, reporting, verification
    - Issuing credits
  - ARB would allow for Offset Project Registries to perform the aforementioned functions as well, subject to ARB audits and oversight (i.e. CAR could perform these tasks)
- Compliance offsets from other programs
  - Early action credits (CRTs)
    - Allows offsets credits issued according to the following protocols developed by the Climate Action Reserve (CAR):
      - CAR Livestock Protocol versions 1.0 through 3.0
      - CAR Urban Forestry Protocol versions 1.0 through 1.1
      - CAR Ozone Depleting Substances Protocol version 1.0
      - CAR Forestry Protocol version 2.1, or 3.0 through 3.2, if the offset has a conservation easement or has contributed offset credits based on its reversal risk to an insurance buffer account
    - CRTs from the aforementioned projects may be used for compliance purposes if the GHG reductions meet the following criteria:
      - Occurred between January 1, 2005 and December 31, 2014
      - Start date any time before January 1, 2012
      - U.S.-based projects
      - Not retired, canceled, or used to meet a voluntary commitment or a surrender obligation in any voluntary or regulatory program
      - Meet verification and conflict of interest for offsets required by the proposed regulation and required under AB 32
      - If the offset meets the above requirements, CAR must retire the CRT prior to ARB issuing an ARB offset on their registry
  - Sector-based credits (REDD)
    - REDD is expected to be the first sector-based crediting that will go before the Board for approval
  - Crediting pathways
    - When ARB-approved program achieves sector-wide emissions reductions from mitigation policies undertaken by or in coordination with the jurisdiction

- When ARB-approved program issued credits to project developers from project-level activities that are “nested” within a jurisdiction-wide sectoral program
- Reductions must be additional to the host jurisdiction's legal requirements and in excess of the host jurisdiction's own commitment toward GHG emissions reduction in that sector
- Quantitative limit
  - 25% of overall offset limit in first and second compliance periods
  - 50% of overall offset limit in third compliance period
- Protocol must be developed and approved by the Board to quantify, monitor, report and verify emissions reductions achieved by REDD programs
- Program must include:
  - REDD Plan
  - Inventory
  - Reference Level
  - Crediting Baseline
  - Nested Accounting
  - Retirement
  - Public Participation and Participatory Management Mechanism
  - Protection Against Reversals
- ARB estimates REDD credits could enter the market in 2015; a pilot program approved in advance of program adoption, could lead to early entry prior to 2015

## Market Tracking System (MTS)

- Record of information about holders of compliance instruments and trading activity
- Two approaches
  - Single MTS that serves all WCI Partners, or
  - Separate systems that communicate and facilitate linkage of separate programs
- Scheduled to be operational in 2012
- Auction, market registry, trade data repository and compliance subsystems operational by end of Q3 2011 to enable a January 1, 2012 start
- Account Types
  - Holding Accounts – applies to all market participants
  - Compliance Accounts – applies to compliance entities
  - Limited Use Holding Accounts – applies to utilities receiving free allowances

## Compliance Obligation Timing

- Program has three-year compliance periods with an “Annual Compliance Obligation” Annual Compliance Obligation - to protect against potential bankruptcy of covered entities
- Compliance entities required to surrender compliance instruments (allowances and offsets) equal to 30% of their verified emissions for that year
- Instruments would be surrendered 6 weeks after emissions are reported
- Triennial Compliance Obligation
  - Compliance entities must submit compliance instruments equaling their verified emissions over the three-year compliance period, less the two annual surrender payments
  - Deadline will be November 1st following the end of the compliance period
  - Penalty for untimely surrender of compliance instruments
  - If by the deadline the compliance entity has not submitted the required number of instruments, it will be required to surrender four allowances for each excess ton not covered; one will go towards the original compliance obligation (i.e. will be retired) and the remaining three into the Allowance Reserve.

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