

July 9, 2013

Dr. Steve Cliff, California Air Resources Board
Chief, Climate Change Program Evaluation Branch
Office of Climate Change
California Air Resources Board
1001 I Street
Sacramento, CA 95814

SUBJECT: Cap-and-Trade Public Meeting to discuss Market Related Reporting and Cost Containment – June 25, 2013

Dear Dr. Cliff:

The California Chamber of Commerce appreciates the opportunity to comment on the California Air Resources Board's (CARB) proposed compliance and information requirements and its *Policy Options for Cost Containment* as presented at the June 25, 2013 public workshop.

The CalChamber is the largest, broad-based business advocate in the state, representing the interests of over 13,000 California businesses, both large and small. Many large CalChamber members will be directly covered by the cap-and-trade regulation, while other smaller members may be impacted by costs passed along by upstream fuel and energy providers. CalChamber has been a constructive voice throughout the process of implementing AB 32 and continues to do so in order to ensure that the Greenhouse Gas (GHG) emission reductions required are achieved while maintaining the competitiveness of California businesses and the health of the economy.

Cost containment mechanisms in the cap-and-trade program are essential for ensuring long run cost-effectiveness of GHG reduction efforts, and crucial in an effort to meet the AB 32 mandate, which calls for cost-effective regulations. It is important that cost mechanisms be given consideration in order to prevent companies from becoming leakage prone as well as to protect both businesses and consumers from unacceptably high prices. Therefore, addressing cost containment issues including industry assistance levels, offsets and emissions inventory will help provide certainty in the cap-and-trade market as well as help improve the danger posed by prices exceeding the Allowance Price Containment Reserve (APCR).

Industry Assistance Levels

Maintaining the current level of industry assistance through 2020 sends a sufficiently strong carbon price signal to obligated industries without withholding and other artificial manipulations of allowance pricing in the market. As CARB's plan also includes a 10% additional reduction requirement and energy efficiency benchmarks, which ensure continued efficient and economic progress on emissions reductions, CARB should be focusing on uncertain sources in future allowance prices as represented by the APCR.

The risk of leakage due to costs incurred by California industry, but not their competitors, is high. Therefore, allowing all industries to receive industry assistance at 2013/14 levels through 2020 to contain costs for regulated industries would provide certainty.

Offsets

CalChamber maintains its position that a robust offset program is a key cost containment mechanism. Expanding the allowable use of offsets is a sound policy choice as numerous economic studies have shown, including CARB's own analysis, that offsets are the best market-based alternative to reduce costs and to limit leakage, ensuring protection for California consumers and keeping California industry

competitive. As a cost containment mechanism, offsets can only be effective if an adequate supply of offsets exists, which means it is critical that the price and amount of offsets be transparent, based on actual market activity and not based on subjective policy decisions. While broad offset policies represent the best cost-containment approach, if offset use is to be constrained, a strategic reserve function could provide cost-containment assurance.

Emissions Inventory

In order to determine whether regulatory adjustments to achieve AB 32 goals can be made to “maximize cost-effectiveness” and “minimize leakage” as required by AB 32, we will need to determine how far we have gone in our emissions reductions. For example, the trajectory of the declining cap could be adjusted to reflect emission reductions achieved by complementary measures at a greater than expected rate.

Again, we appreciate your consideration and the opportunity to comment on the June 25, 2013 workshop. We look forward to further communication as the cap-and-trade workshops continue. Should you have any questions, please feel free to contact me at (916) 444-6670.

Sincerely,

Amy Mmagu
Policy Advocate