

November 1, 2017

Honorable Edmund G. Brown Jr.
Office of the Governor
State Capitol, First Floor
Sacramento, California 95814

Dear Governor Brown:

On January 30, 2017, the California Air Resources Board (CARB) requested that you make findings, as required under Senate Bill 1018 (Government Code section 12894(f)), relating to the proposed linkage of California's Cap-and-Trade Program (California Program) with Ontario's Cap-and-Trade Program (Ontario Program). As noted in that request, in the Global Warming Solutions Act of 2006, the Legislature directed CARB to facilitate the development of integrated regional, national, and international greenhouse gas (GHG) reduction programs.

California had previously linked with the Cap-and-Trade Program in Québec, effective January 1, 2014, and California and Québec have operated a linked program since that time. Linking California and Ontario's programs will further enhance the ability of our jurisdictions to effectively work together to develop and implement cost-effective regional GHG emission reduction programs. In addition, linking with Ontario's program will demonstrate that the existing California-Québec linkage framework is open for additional partners to join, and provides a workable template for urgently needed action. It is important and timely to demonstrate that linked programs offer a path forward that can include additional states and provinces.

On March 16, 2017, you released findings based on material submitted by CARB and the advice provided by Attorney General Becerra. It was found that the four requirements of Government Code section 12894(f) have been satisfied. Following receipt of the findings, CARB amended the California Cap-and-Trade Regulation to link the California Program with the Ontario Program as of January 1, 2018. Those regulatory amendments became effective on October 1, 2017.

In your findings, you also recognized the ongoing collaboration between California, Québec, and Ontario, including the testing and evaluation of the auction platform and trading systems to ensure that the programs are ready to link. The findings directed that CARB report to the Governor and the Secretary for Environmental Protection by November 1, 2017 on the progress to prepare for linking, and whether there are any impediments to linkage occurring in January 2018.

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I am pleased to inform you that California and Ontario are prepared for linking to proceed on January 1, 2018. CARB, Québec, and Ontario have in place procedures for ongoing coordination between the three programs. On September 22, 2017, you signed an agreement between California, Québec, and Ontario, titled: "Agreement on the Harmonization and Integration of Cap-and-Trade Programs for Reducing Greenhouse Gas Emissions."¹ This agreement will go into effect on January 1, 2018.

Based on extensive discussion and review of program materials, California, Québec, and Ontario have determined that their respective program processes and procedures for all activities related to issuing, tracking, and monitoring the trading of compliance instruments are consistent and compatible. We have developed procedures and processes to conduct jointly with Ontario and Québec, and are on track to finalize those procedures and processes prior to January 1, 2018. We and Ontario have concluded that the programs are prepared to link by enabling compliance instruments to be transferred between participants in the two programs as of January 1, 2018, as called for in the program regulations.

In support of these recommendations, I am transmitting with this letter a report describing the status of our readiness to proceed with linking the California Program with the Ontario Program. If you have any questions, please feel free to contact me at (916) 322-5840 or mnichols@arb.ca.gov.

Sincerely,


Mary D. Nichols
Chair

Enclosure

¹ Our collaboration with Québec was formalized in a 2013 agreement between California and Québec, titled: "Agreement between the California Air Resources Board and the Government of Québec Concerning the Harmonization and Integration of Cap-and-Trade Programs for Reducing Greenhouse Gas Emissions." California and Québec have modified their original agreement such that it terminates upon the entry into force of the new California, Québec, and Ontario agreement. Copies of the Linkage Agreements are available here: <https://www.arb.ca.gov/cc/capandtrade/linkage/linkage.htm>.

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cc: The Honorable Kevin de León
President pro Tempore
California State Senate
State Capitol, Room 205
Sacramento, California 95814

The Honorable Anthony Rendon
Speaker of the Assembly
State Capitol, Room 219
Sacramento, California 95814

The Honorable Holly Mitchell, Chair
Senate Budget Committee
State Capitol, Room 5080
Sacramento, California 95814

The Honorable Phil Ting, Chair
Assembly Budget Committee
State Capitol, Room 6026
Sacramento, California 95814

Matthew Rodriguez
Secretary for Environmental Protection

Honorable Board Members

Richard W. Corey
Executive Officer