July 5, 2018

Rajinder Sahota – Assistant Division Chief, Industrial Strategies Division
Jason Gray – Branch Chief, Cap-and-Trade Program
California Air Resources Board
1001 I Street
Sacramento, California 95814

RE: Comments on the June 21st Workshop to Continue Informal Discussion on Potential Amendments to the Cap-and-Trade Regulation

Dear Ms. Sahota and Mr. Gray,

The organizations listed below respectfully submit the following comments in response to the June 21st Workshop to Continue Informal Discussion on Potential Amendments to the Cap-and-Trade Regulation (Cap-and-Trade).

<u>Our organizations continue to support a well-designed cap-and-trade program as the most cost-effective method for achieving carbon emissions reductions while limiting the impact to California's economy</u>. Enabling companies to choose the most economical method for reducing emissions and maintaining a stable market will help limit the negative effects of imposing regulatory compliance costs on California manufacturers and other obligated parties while no other competitive jurisdictions impose similar costs on their manufacturers.

The central message of these comments, as with our comments on the April 26th workshop, remains "cost containment". Cost containment includes continuation of assistance factors (AFs) at 100 percent during Compliance Period 3 (CP3) and post-2020 period, a reasonable price ceiling paired with appropriately placed 'speed bumps' and maintenance of available allowances in the market.

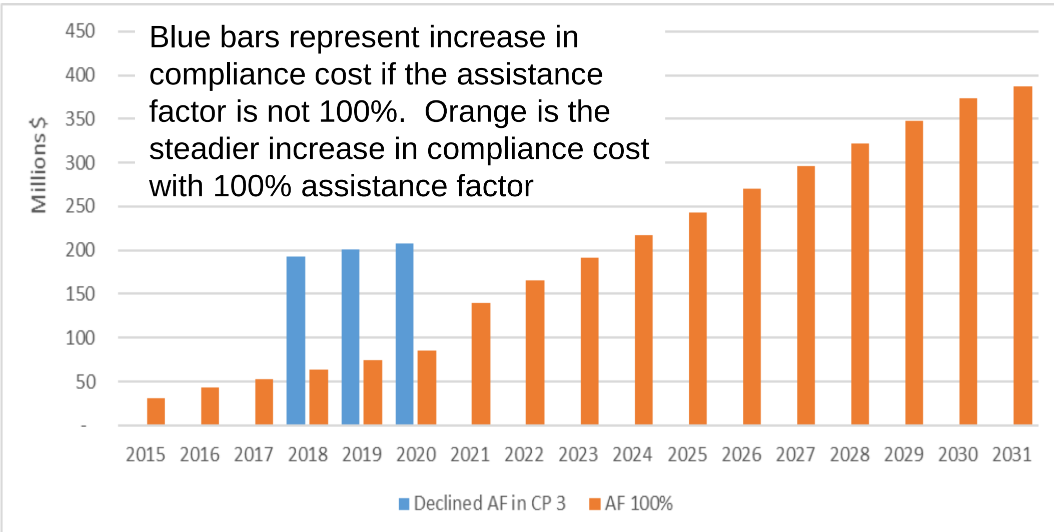
Below are our comments regarding the June 2018 Preliminary Discussion Draft (PDD). In the interest of focus, these comments do not repeat substantive sections of those submitted following the April 26th informal workshop.

Maintain Industry Assistance Factors at 100 Percent in CP3
We agree with the ARB staff recommendation to maintain AFs at 100 percent for all covered entities in CP3 as it support the objective of minimizing emissions leakage while meeting emissions reductions goals. However, we remain frustrated that the PDD continues to reflect no amendment to adopt this change in the C&T regulation in spite of clear direction from the Board in Resolution 17-21 and ARB staff analysis indicating that compliance costs increase dramatically absent this change in AFs.

Clear Board direction, ARB staff analysis of compliance costs (Chart 1 below) and the lack of broader carbon market participation in competitive jurisdictions constitute sufficient evidence for the continuation of 100 percent AFs in CP3. Additionally, the smooth transition into the post-2020 period, as mandated by AB 398 (2017) argues for maintaining AFs in CP3. Therefore, we respectfully request that ARB staff add language implementing 100 percent AFs for all leakage risk categories in CP3 be added to the next version of the PDD.

Chart 1

Estimated Compliance Cost for Sectors in Medium and Low Leakage Risk Categories



- Assumes $15 allowance value for 2015 – 2020 and $20 for 2021 – 2023
- Uses 2016 emissions as a proxy for emissions in 2017 and beyond

Price Ceiling and Speed Bumps Provide Essential Cost Containment
As our earlier comments referenced, Cap-and-Trade provides pressure relief to the overall GHG emission reduction regime, thus an appropriate price ceiling protects the integrity of this core function. The political viability and potential to encourage other jurisdictions to follow California's policy direction would be highly impacted by a high price ceiling and that fact should be kept in mind as the price ceiling is set. Further, the price containment points (aka "speed bumps") called for in AB 398 (2017) should be placed at one-third and two-thirds intervals between the price floor and price ceiling in order to limit market volatility and provide time for the Independent Emissions Market Advisory Committee (IEMAC) and regulators to study and understand the market dynamics prior to prices hitting the ceiling.

Research conducted by NERA Economic Consulting on behalf of the California Manufacturers & Technology Association (CMTA) clearly indicates that higher price ceiling levels and speed bumps result in reductions in the household income of Californians (study attached to April 26th comments). Consequently, a reasonable price ceiling and speed bumps limits the impact to businesses and consumers that face higher costs for the energy, fuels and goods they purchase and consume.

In the preliminary Concept Paper released by ARB earlier this year, staff requested input on a potential price ceiling value between $81.90 ($2015) and $147 ($2015) with a potential speed bump value of $70 (2015). However, since the release of the paper, staff have not made public any new information on the price ceiling and speed bumps leaving stakeholders without the data necessary to analyze the potential impact, a task that would take some time to complete. ARB should be more transparent and release a proposal or, at a minimum, additional staff thinking as soon as possible in order to support an informed rulemaking process and public participation.

Removing Unused Allowances is Unnecessary to Reach Carbon Reduction Goal
The current availability of unused allowances is an indication that the Cap-and-Trade program is working as currently designed. Maintaining the current allowance budget provides additional protection against the prospect of greater artificial scarcity beyond what is already built into the program. As a result, keeping those allowances in the market limits artificial price spikes and supports compliance with carbon reduction goals. ARB staff correctly point to this fact in their April 26th PowerPoint presentation indicating that it is, "not simply supply vs. demand" and that "restricting allowances penalizes covered entities that undertook early actions."

The 52.4 million allowances currently in the post-2020 Allowance Price Containment Reserve (APCR) should be allocated to the speed bumps, or reserve tier prices, where the allowances would serve the greatest interest in containing allowance prices for California manufacturers and other obligated parties.

Further any attempt to shave allowances from the 2026-2030 allowance budgets to reflect the change in the offset limits would represent a mostly punitive measure that only serves to increase the allowance price for obligated parties and does not support a sustainable program. It is particularly onerous because the cap (annual allowance budget) is already extremely low in this period such that there may be an allowance supply shortage under the current cap budgets.

Conclusion
The organizations listed below respectfully request that ARB carefully consider these comments and the recommendations above. Efforts to contain prices are a critical function of the amendments under consideration. It serves the interests of the California economy and the future of the Cap-and-Trade program to ensure that all steps are taken to mitigate the impact of carbon pricing.

Please contact Michael Shaw, Vice President of Government Relations, California Manufacturers & Technology Association (CMTA) at (916) 498-3328 or mshaw@cmta.net if you have any questions regarding these comments.

Sincerely,

Michael Shaw
Vice President, Government Relations
California Manufacturers & Technology Association (CMTA)

On Behalf of the following organizations:

Agricultural Council of California
California Chamber of Commerce
California Dairies, Inc.
California Farm Bureau Federation
California League of Food Producers
Climate Change Policy Coalition
Glass Packaging Institute
Western Independent Refiners Association
Western States Petroleum Association