



May 10, 2018

Ms. Rajinder Sahota
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Submitted via email to rajinder.sahota@arb.ca.gov

RE: Public Workshop on Cap-and-Trade Regulation Post-2020 and AB 398 Implementation held April 26, 2018

Dear Ms. Sahota:

Thank you for another informative workshop and for this opportunity to provide comments. Environmental Defense Fund recognizes and appreciates the significant amount of work California Air Resources Board staff are putting into AB 398 implementation and potential regulatory updates.

The comments below address three particular areas of focus for EDF at this time: setting the post-2020 cap, the inclusion of international sector-based offsets, and the definition of direct environmental benefits.

Post-2020 Cap

As we shared in the previous workshops, EDF strongly supports setting the post-2020 cap based on a step-down to expected emissions in 2021, rather than a straight line from 2020 to 2030. The difference in these two methodologies is 52,400,000 allowances that are currently slated to go into the post-2020 price containment reserve, and EDF believes these allowances reflect the opportunity for a cap adjustment to increase emission reductions.

From an environmental perspective, making this cap adjustment of 52,400,000 allowances is taking an advantage of an opportunity to increase program ambition. The cap-and-trade program has been successful at reducing emissions, as demonstrated by current emissions being below the cap, and tightening the post-2020 cap puts California on even stronger footing to meet the 2030 target.

There are a number of justifications for making this cap adjustment in the upcoming regulatory package.

- The most important reason for this proposed cap adjustment is that the cap-and-trade program now contains a firm price ceiling with environmental integrity protection. Before AB 398 these 52,400,000 allowances could be regarded as additional price protection. However, the new hard

price ceiling will provide absolute price protection. If the price ceiling is triggered and reductions are sold above the cap, AB 398 requires CARB to use the resulting revenue to secure reductions on at least a ton-for-ton basis. If these 52,400,000 tons are placed in the price containment reserve instead of removed from the annual budgets that will mean a delay in triggering that environmental integrity mechanism and will represent 52,400,000 fewer tons of reductions for the atmosphere.

- To be clear, this recommendation to make a cap adjustment is not based on a desire to achieve a specific carbon price. Therefore, we do not focus on cost projections in making our recommendations. Rather, this is an important opportunity for increasing ambition. We simply want to see CARB set a trajectory for reaching the 2030 target based on where emissions are expected to be in 2021.
- This method for setting the cap would be consistent with the method CARB used to set the 2013-2020 cap. That is, setting the cap based on a trajectory from expected emissions (in 2013 and 2021) and the statutory target, rather than the currently proposed straight-line approach.
- Adjusting the cap would not violate long-term expectations from market participants about the availability of allowances. Before July 2017 CARB had not set a post-2020 budget and during workshops throughout 2016 and 2017 CARB acknowledged that there were multiple methods (including this one) that could be used to set a post-2020 cap.

While much of the discussion in workshops and in concept documents put forth by CARB has focused on making a cap adjustment based on the amount that emissions are below the cap pre-2020, little discussion has taken place regarding a cap adjustment based on this difference between expected emissions in 2021 and the straight line between 2020 and 2030. EDF respectfully requests that CARB give this proposal further examination and consideration.

International Sector-Based Offsets

EDF would like to reiterate our strong support for incorporating international sector-based offsets into the cap-and-trade program, specifically from tropical forestry, to reduce deforestation and forest degradation. CARB has done extensive work on this subject over several years, and we urge CARB to move into the regulatory development phase this year. Establishing a regulatory standard for crediting programs that meets the high bar for environmental integrity and social safeguards recommended by world-renowned experts on tropical forests and climate change would have a transformational effect for forests and the global climate.

EDF thinks it is critical that the regulatory process that codifies these standards be completed as soon as possible to set a global gold standard for compliance-based systems considering tropical forest credits, such as the Carbon Offsetting and Reduction Scheme for International Aviation developed by the International Civil Aviation Organization. Reducing emissions from deforestation is a critical and significant contributor to global emissions and California is uniquely positioned to both set a very high bar for the quality of programs aimed at reducing forest emissions and particularly to develop a model that can drive large-scale emissions reductions far beyond those within the state's borders. CARB's consideration of recommendations ensuring that environmental and social safeguards meet the highest standards has been both extensive and thorough, so that international sector-based programs that could be credited by the state benefit both forest communities and the climate.

An additional consideration for including international sector-based offsets is the potential need for high-integrity emission reductions if the price ceiling were to be triggered. However, there is a limited supply of these reductions currently available, and the state could potentially need a significant number

if that price ceiling is reached. International sector-based offsets are a source of these high-integrity reductions California would need.

EDF would also like to reiterate its support of California's consideration of a link with the well-established effort in Acre, Brazil. Acre is clearly a leader in furthering the social justice movement and the sustainable use and management of tropical forests. Because of California's long relationship with Acre and extensive work in collaboration with tropical forest stakeholders and jurisdictions, California is best positioned to develop the standards for this type of international reduction credit. A careful and transparent process, such as the one that California and Acre can undertake, will provide a model for others to emulate on both the supply and demand sides of tropical forest carbon crediting mechanisms.

Direct Environmental Benefits

EDF believes that offsets play an important role in the cap-and-trade program. They provide opportunities for uncapped sectors to participate in emission reductions, provide pathways for lowering compliance costs and therefore opportunities for increasing ambition, deliver real greenhouse gas pollution reductions beyond what otherwise would've been achieved at the individual project sites, and create critical cost-containment to help California avoid triggering its new hard price ceiling post-2020. Therefore we urge ARB to continue to maintain the stringent, high-integrity offset program and consider adding new offset protocols as we approach 2020. California's offset program is recognized around the world as the most conservative, rigorous and high-quality program.

EDF also believes CARB has laid out one potentially reasonable way to identify the Direct Environmental Benefits that must apply to some offsets. However, further discussion following the workshop suggests that there may be additional work and clarification that could be beneficial on this topic. EDF understands CARB to have articulated in workshops and in workshop materials that there will be a difference between offsets that are currently accepted for compliance and those that do provide direct environmental benefits to California. This seems to have been a point of confusion but EDF agrees that the intent of AB 398 is to create this distinction. The question then is how best to create a process for identifying which offsets can be designated as providing direct environmental benefits to California. EDF looks forward to further conversation on options with CARB and other stakeholders and will submit supplemental comments on this topic when and if we have additional recommendations.

EDF believes any successful strategy for defining direct environmental benefits will adhere to a few fundamental principles: 1) Take into account what is administratively practical so as to ensure that the state can reap the many benefits of offsets including accrual of direct environmental benefits. 2) Ensure that the state is able to fully consider the environmental benefits to California rather than focus exclusively on geographic restrictions. 3) Adhere closely to the statutory requirements as written in AB 398.

Thank you for your consideration of these comments as well as your extensive work on AB 398 implementation.

Sincerely,



Katelyn Roedner Sutter
Senior Analyst, Climate Policy