Climate Change Policy Coalition

TO: Mary Nichols, Chair
California Air Resources Board

FR: Climate Change Policy Coalition
Formerly -- AB 32 Implementation Group

DATE: April 15, 2016

RE: Public Workshop on Cap-and-Trade Regulation Amendments: Post-2020 Cap Setting and Allowance Allocation Comments

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The AB 32 Implementation Group includes industry and taxpayer organizations advocating for policies to reach AB 32 emission reduction goals in a cost-effective manner to protect jobs and the economy.

The California Air Resources Board (ARB) should clearly state its position regarding the extent of its authority to address post-2020 emission reductions. It is in the best interest of the program to avoid litigation, market disruption and uncertainty that this would cause.

The following are the Climate Change Policy Group's initial comments regarding the 'post-2020 cap setting and allowance allocation' workshop. The workshop detailed moving forward with plans for post-2020 yet we believe there remains more work to focus on prior to the workshop issues. At a minimum, there should be a legislative directive to develop an analysis of post-2020 climate policies that includes:

Legislative approval is required for post-2020 goals below the 1990 emission levels. At this time, the ARB's statutory authority in this area extends only to maintaining emissions at 1990 levels and no further reductions.

A requirement that post-2020 targets be evaluated to ensure they are achievable in a cost-effective manner. A robust analysis of the marginal costs and technological feasibility of complying with any proposed post-2020 targets will provide important insights into the appropriate target levels, the best timing for achieving reductions, and what other incentive policies should be embraced to offset higher than acceptable costs. In addition, analysis and specific consequences to economic sectors negatively impacted by emission reduction programs should be specifically outlined and reported in economic and feasibility analytics.

A requirement that robust and regular oversight and informational hearings accompany the post-2020 climate policies. This will ensure that ARB board members are addressing the key policy issues important to both legislators and stakeholders, as well as holding to the requirements of AB 32, are receiving input and providing the necessary guidance for further state policy development. We believe ARB should, at a minimum, review each current regulation resulting from AB 32 and determine if, (1) the regulation has accomplished the intended objectives or, (2) if the regulation has failed to achieve its goal and may simply have placed undue burdens on California's businesses and consumers without Reducing our GHG emission levels.

A provision that includes a review of the original AB 32 Scoping Plan Peer Review document. The 2008 Scoping Plan Peer Review document provided valuable feedback when evaluating the ARB's initial Economic Analysis of the Scoping Plan. These nationally recognized experts on environmental and economic issues raised valid points that should be reviewed. These concerns include: (1) cost of scoping plan regulations with regard to the increase in pricing of consumer goods and services; (2) the impact of increased energy costs that will affect California companies and families; (3) the impact on California's competitiveness; and, (4) the lack of a cost-effectiveness analysis.

A provision that details Agency coordination. The nature of California's climate change policies necessitates that state agencies other than the ARB play a critical role in implementing AB 32 regulations and laws to help us achieve the 2020 GHG emission reduction targets. There needs to be a transparent and public documentation of how the funding to implement climate change policies is being coordinated among state agencies to ensure against duplicative spending and project efforts.

A requirement that emission targets sync with similarly stringent commitments by other states and countries. While we appreciate the efforts made by the Administration and the ARB to promote and encourage other states and nations to be more aggressive in their climate change policies, the fact remains there is much to be accomplished on this front. Any emission reductions anticipated beyond 2020 should be analyzed and reported in the context of California's reductions against worldwide carbon emission projections**.**

Focusing specifically on the workshop 'Cost Containment Features' slide -- We are concerned with: incorporating the multi-year compliance periods to align with the CPP; the proposal to limit (and per the EJAC recommendation removal) offset cap decline options; industry assistance factor; allocation for electricity sales; and, changing methane global warming factor from 21 to 25 based on the "Fourth Assessment Global Warming Potentials"; and establishing a price cap.

Including California's cap-and-trade program in the submission of the CPP is not necessary: ARB has indicated California's cap-and-trade program will be the keystone to comply with the Clean Power Plan (CPP). We concur with other stakeholders that taken together California's 50% Renewable Portfolio Standard and more than $1 billion in energy efficiency upgrades will be sufficient to meet CPP requirements. Thus, the inclusion of California's cap-and-trade program is not necessary. ARB should not cede its authority of the cap-and-trade program to the Environmental Protection Agency (EPA).

Limited use of offset credits: Our organization has long-advocated for a broad use of offsets. We urge ARB to adopt a policy to broadly allow the use of offsets. ARB should revisit the unnecessarily restrictive quantitative limit on the use of offsets. The cost containment potential for the broad use of offsets is undeniable, and we should be encouraging development of a healthy offset development market in the state. Strict limits will dampen enthusiasm and investment in these valuable and innovative projects.

Cap Decline Option: We support the first option with the starting point of 1990, it maintains consistency with AB 32's goals, regulatory changes will not be substantial and market manipulation would be more difficult.

Purchased Electricity: We oppose adding in purchased electricity under the compliance obligation. Adding electricity will increase compliance obligation by at least 8% for even highly efficient facilities that are already employing clean technology. For operations without such offsetting technology (back pressure steam generators, for instance) counting purchased electricity will likely increase their compliance obligations significantly.

In the absence of grants, subsidies, and power purchase agreements where applicable, clean energy technologies such as solar voltaic and solar thermal, are NOT cost effective and other technologies that require significant facility modification, would be useless in keeping the cost of compliance reasonable.

Industry Assistance Factor: The Industry Assistance Factor is a key cost containment mechanism. CCPC recommends that ARB extend the industry assistance factor designated for the second compliance period – 100% of sector benchmark - into the third compliance period. Looking at California's program in isolation, as the current Cap continues to decline and opportunities for emission reductions become increasingly scarce and expensive, there is a greater need for industry assistance in emissions allocation to insulate in-state companies from economic advantages that would otherwise be enjoyed by their out of state competitors.

Allocation for natural gas – increase amount of consignment to auction: By increasing the consignment to auction, the costs will increase to consumers. ARB should provide trade exposure protection for these costs consistent with their electricity EITE policy.

Changing Methane Global Warming Factor from 21 to 25 based on the "Fourth Assessment Global Warming Potentials": The 100 year factors are the only appropriate factors for any regulation in California. We oppose this change unless any change in factors are done for all GHGs and must be done on the baseline inventory and 1990 level to keep clear and consistent.

Establishing a price cap: ARB proposes to use one of the recommendations from the EMAC to contain costs. However, we believe and the EMAC paper states that the more powerful and critical tool to address allowance supply issues is a price cap. We strongly recommend establishing a price. The cap-and-trade program was intentionally back loaded. As a result, we also believe that all cost containment measures should be utilized as we enter a potentially highly constrained market in 2018.

In closing, California is staying the course with regard to reducing greenhouse gas emissions, let's give other states and nations time to meet California's standards before we consider additional climate change policies goals that at this point in time are not technically feasible yet are costly for all Californians further, they and not authorized by the Legislature nor in statute.

Should you have any questions or need anything further from us, please feel free to contact Shelly Sullivan at (916) 858-8686.