TO: Rajinder Sahota, Assistant Chief Industrial Strategies Division
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California Air Resources Board

FR: Climate Change Policy Coalition

Date: March 16, 2018

RE: Cap-and-Trade Program / Amendments to Cap-and-Trade Regulation Workshop – March 2, 2018

The Climate Change Policy Coalition [CCPC] is a diverse group representing California's large and small employers, cap-and-trade regulated entities, taxpayer groups, agriculture interests and building and planning experts. We advocate for policies to reach AB 32 and SB 32 greenhouse gas [GHG] emission reduction mandates and the implementation of California's climate change policies in a cost-effective and technologically feasible manner to protect jobs and the economy.

CCPC believes the best path to achieve the state's long-range environmental objectives is through an integrated and flexible policy framework that optimizes sustainable and cost-effective greenhouse gas (GHG) emission reductions in all programs and sectors. We support a program that allows for cost-containment and market certainty opportunities that prevent market volatility.

A well-designed cap-and-trade program is one of the tools California should use in reaching our aggressive greenhouse gas [GHG] emission reduction mandates. These are CCPC's comments in response to the ARB staff presentation and workshop 'Amendments to Cap-and-Trade Regulation Workshop – March 2, 2018.'

A number of issue areas that fit into a construct of a well-designed program include 3rd CP Assistance Factor, Banking Rules, Unsold Allowances, Price Ceiling, and the Over-Supply discussion.

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INDUSTRY ASSISTANCE FACTORS

AB 32 includes specific direction to CARB to minimize leakage. In order to guard against leakage, academics and economists have advised the state to consider, as part of the design of the cap-and-trade program, a system of allowance allocation that includes industry assistance. In recognition of this important component of the state's cap-and-trade program, the CARB Board issued Board Resolution 17-21 at its July 2017 Board meeting in which it directs ARB staff to "propose subsequent regulatory amendments to provide a quantity of allocation, for the purposes of minimizing emissions leakage, to industrial entities for 2018 through 2020 by using the same assistance factors in place for 2013 through 2017." CCPC's members are threatened by competition from outside the state. Industries that operate in states that have no carbon policy have a competitive advantage over California industry. Because CCPC recognizes the importance of guarding against economic and environmental leakage, we have long-advocated that adequate industry assistance factors are a necessary component to a well-designed cap-and-trade program. **We support the Board recommendations of extension of 100% assistance factor for all leakage classifications in the 3rd compliance period of 2018-2020.**

As stated in the ARB presentation slide 10, *"... propose subsequent regulatory amendments to provide a quantity of allocation, for the purposes of minimizing emissions leakage, to industrial entities for 2018 through 2020 by using the same assistance factors in place for 2013 through 2017"*

Further, *"100% assistance factor **does not mean** that entities are allocated all allowances they need to comply with the Program"*

The Board direction will protect many California families, businesses, and communities from dramatically higher energy costs while keeping industry in California and on track to meet the greenhouse gas emission (GHG) reductions goals.

BANKING RULES

The need to preserve the ability to bank allowances is one of the major factors contributing to the continued success of the cap-and-trade program. The Banking provisions provide an opportunity to set the cap-and-trade market up for long-term stability and investment that drives GHG reductions. While there have been questions raised around banking we believe current rules in the cap-and-trade regulation do a good job of ensuring both transparency and market oversight.

UNSOLD ALLOWANCES

Adequate allowance volumes represent an important piece of the carbon market that will serve to provide market stability in future auction years. Therefore, ARB should return unsold allowances to future auctions. This will improve allowance credit supplies and will help reduce volatility in the cap-and-trade program in future years.

PRICE CEILING

The ability for obligated companies to forecast costs is important for planning and budgeting purposes. ARB's recent [March 2, 2018] presentation would have benefitted from an analysis of pegging all dollar amounts to the same year.

The ARB staff recommendation for the price ceiling for the cost of carbon resulting in $150.00 is of significant concern to CCPC. ARB's position is at odds with existing academic studies and ultimately could result in increasing gasoline to at least $1.50 per gallon.

We believe the ARB's "Standardized Regulatory Impact Assessment (SRIA) Proposed Amendments to the Cap-and-Trade Regulation" table clearly illustrates the potential impact of a high price ceiling on consumers.

From the ARB SRIA '**Direct Costs on Individuals'**

> *"The Amended Regulation will result in a direct cost to individuals through an increase in the price of goods based on their carbon content. Incorporating the cost of Cap-and-Trade Program allowances into the price of carbon-based fuels increases the price of fossil fuels and the price of products based on their use of fossil fuels."*

As stated above, we appreciate the cap-and-trade program because it is intended to provide both a balance of environmental integrity and economic vitality in this market-based program. But the price ceiling numbers discussed at the March 2nd workshop equate to a significant increase and will impact consumers and businesses across the state. What consideration is given to what they can tolerate, especially low-income consumers and small businesses? Additionally, none of this occurs in a vacuum, so the impact of outside factors must also be part of the equation or they will be compounded by setting an excessively high price ceiling on carbon allowances.
Earlier this year ARB released a draft concept paper including the placement of speed bumps in the price ceiling process.

OVER-SUPPLY

CCPC believes the so-called "over-supply" discussion is an issue looking for a problem and is nothing more than an indication of the success of the program in encouraging early compliance. What we're currently seeing in the cap-and-trade market relative to the business as usual forecast is indicative of the fact that the program is working. In fact, rather than calling this an "over-supply" issue this is an over-compliance issue where the state has actually been even more successful reducing its emissions than was originally anticipated.

The fact that the state has gone above and beyond what was originally expected with regard to GHG emission reductions should be celebrated, not considered to be a problem in fact, the state's Legislative Analyst's Office found that the supply question is potentially being driven by, among other things, the fact that command-and-control programs are reducing emissions more than originally anticipated suggesting that the current implementation may be the most efficient achievable in both reducing emissions and protecting the economy.

If that's the case, then perhaps ARB should look at dialing back some of the stringency of the state's command-and-control programs.

More importantly, no one can forecast what turns or factors will come into play that will significantly alter the impact of the post-2020 program on the obligated entities or on the state's economy. The ARB would be wise to take no action on the "over-supply" until at least 2025 giving the program time to reveal such impacts.

CCPC agrees the cap-and-trade market mechanism continues to provide opportunities to reduce the costs of achieving GHG emission reductions under California climate change policies. Providing flexible options for compliance is crucial for companies that have limited ability to make onsite reductions, desire to expand their operations in California, or have a capital investment cycle that would not necessarily be synchronized with demands of a command-and-control type regulation.

We look forward to participating in additional cap-and-trade workshops regarding the continued regulatory development of the cap-and-trade regulation. Should you have any questions or need anything further please feel free to contact Shelly Sullivan at (916) 213-3700.