



California Council for Environmental and Economic Balance

101 Mission Street, Suite 1440, San Francisco, California 94105
415-512-7890 phone, 415-512-7897 fax, www.cceeb.org

October 19, 2015

Ms. Rajinder Sahota
Branch Chief, Cap-and-Trade Program
California Air Resources Board
1001 I Street
Sacramento, CA 95814

RE: Potential 2016 Amendments to Cap-and-Trade Regulation

Dear Ms. Sahota:

On behalf of the members of the California Council for Environmental and Economic Balance (CCEEB), we want to thank the California Air Resources Board (ARB) for this opportunity to comment on the proposed regulation for potential amendments to the Cap-and-Trade Program. CCEEB is a non-profit, non-partisan association of business, labor, and public leaders, which advances balanced policies for a strong economy and a healthy environment.

In 2010, CCEEB provided detailed suggestions to streamline implementation of the proposed Cap-and-Trade regulations. CCEEB's 10 key recommendations were:

1. Revise the cap reduction slope to allow for smoother transition
2. Remove unnecessary constraints on the market that increase the cost of compliance; increase holding limits and offset limits
3. Establish a program to monitor the health of California's economy and market.
4. Establish a trade exposure test
5. Establish a process to refill the Allowance Reserve
6. ~~Establish a workplan to ensure that the tools, guidance, training, market tests, and infrastructure that are necessary to comply with the regulation are in place before requiring entities to comply with the requirements~~
7. Adopt offset protocols as rapidly as possible
8. Revise enforcement penalties, align with federal reporting requirements, and establish a dispute resolution process
9. Expedite linking to other GHG markets
10. Clearly state intent of the ARB to seek equivalency to the Environmental Protection Agency's (EPA) emerging GHG programs, or other alternatives to ensure California's businesses are not subject to duplicative GHG regulations

With the exception of item six, CCEEB believes our 2010 list is still valid and requires action. While we appreciate that some of these suggestions are being considered in the

proposed amendments, we propose that ARB consider a broader scope of amendments. This would include the type of modifications CCEEB and other stakeholders have proposed. Given that we are entering a particularly complex and fast-moving period of regulatory and policy development, including Cap-and-Trade, the Scoping Plan and the SLCP Strategy, CCEEB also believes it is as critical as ever that ARB provide a process that allows for full input from stakeholders. We are concerned that the current fast-moving, one-year schedule for the adoption of these potentially economically impactful regulations does not allow for meaningful dialogue between ARB and stakeholders. At the very least, we ask that ARB distribute materials prior to workshops and other meetings as early as possible, and preferably not on the day of meetings.

On the Cap-and-Trade Program, CCEEB generally supports amendments that would:

- Extend the Cap-and-Trade Program
- Improve Program efficiency
 - Streamline regulation requirements and implementation
 - Remove unnecessary requirements
- Reflect the latest data and information
 - Global warming potential
 - Experience from other emissions trading programs
- Maintain environmental and market integrity
- Monitor economic changes, cost effectiveness and potential for impacts on a frequent basis

CCEEB supports potential amendments for the third compliance period that would:

- Improve cost-containment and market oversight provisions
- Provide additional safeguards against exceedingly high allowance prices
- Streamline the offsets program
- Streamline auctions and consider increasing auction frequency
- Streamline information management and submittal
- Incorporate sector-based offset credits into the Program
- Incorporate results of leakage studies for third compliance period allowance allocation to the extent that they are representative of the industry sectors evaluated
- Encourage and streamline linkage with other jurisdictions

CCEEB supports potential amendments for the post-2020 program that would:

- Use the cap-and-trade program as the primary means to help move the state toward long-term targets that are set after a thorough review in the Scoping Plan, including an economic analysis.
- Develop more innovative cost-containment and market oversight provisions
- Integrate the cap-and-trade program with U.S. EPA Clean Power Plan if ARB can address concerns with federal enforcement, without increasing complexity, reducing flexibility or resulting in a less liquid market.
- Provide an fair and equitable approach to allowance allocations
 - Continue linkage with other jurisdictions

- Actively pursue indirect and direct linkage with other jurisdictions such as RGGI and the EU-ETS

Double Cap

CCEEB also wishes to provide some initial comment on a proposed “double cap” structure. We understand that under this proposal, ARB would set one pollution cap as a limit achievable through known technology and also set a lower, or more stringent, cap as a limit achievable with an “expected level of technology,” according to ARB staff. The more stringent cap would be used to allocate allowances to regulated entities under the program. Allowances equaling the level of emissions calculated as being between the lower and higher caps would be set-aside in a reserve, according to this methodology.

Although we will await further details from ARB, CCEEB has concerns about the concept of a double cap introducing subjective estimates on type and amount of technology advancement. We believe the double cap could create significant unnecessary costs, heighten regulatory uncertainty and compliance risk, and would introduce new complexities to the Program. CCEEB strongly urges ARB to consider other approaches that would support technology such as offset development and expanded GGRF funding for pre-commercial R&D.

Conclusion

CCEEB would like to thank ARB for considering our comments on the proposed amendments to the cap-and-trade regulation. CCEEB represents a broad cross-section of the covered entities in California. As such, CCEEB is in a position to represent diverse industry sectors and would like to assist ARB in developing these ideas further. CCEEB looks forward to playing an integral role in the future development and operability of California’s Cap-and-Trade Program. Please contact me or Jackson R. Gualco, Kendra Daijogo or Mikhael Skvarla, CCEEB’s governmental relations representatives at The Gualco Group, Inc. at (916) 441-1392.

Thank you for considering our comments.

Sincerely,



GERALD D. SECUNDY
President

cc: Mr. Bill Quinn
Ms. Janet Whittick
The Gualco Group, Inc.