

April 28, 2017

The Honorable Mary Nichols  
Chair, California Air Resources Board  
1001 I Street  
Sacramento, CA 95814

**SUBJECT: COMMENTS ON THE AMENDMENTS TO THE CALIFORNIA CAP ON GREENHOUSE GAS EMISSIONS AND MARKET-BASED COMPLIANCE MECHANISMS REGULATION (APRIL 13, 2017)**

Dear Chairwoman Nichols:

The California Chamber of Commerce (CalChamber) appreciates the opportunity to comment on the California Air Resources Board (CARB) Cap-and-Trade amendment 15-day package released April 13, 2017.

CalChamber is the largest broad-based business advocate in the state, representing the interests of over 13,000 California businesses, both large and small. Many of CalChamber's larger members are directly affected by climate change regulations, while many other smaller members will likely experience indirect impacts in the form of new costs passed down from fuel and energy providers.

CalChamber strives to remain a productive stakeholder throughout the AB 32 implementation process as well as in the future with post-2020 climate policies, in order to advance the greenhouse gas (GHG) emission reduction goals in the most cost-effective manner while protecting California businesses and allowing for economic growth across all sectors of the economy. We have long maintained that if designed properly, a market-based mechanism has the ability to garner significant GHG reductions in a cost-effective manner.

A cap-and-trade program will be a more cost-effective approach than command and control and less likely to discriminate unfairly against particular industrial sectors. California's greenhouse gas reduction laws post 2020 will be unworkable without a well-designed market mechanism. The command and control measures that would be used to achieve a 2030 GHG emission reduction target of 40% below 1990 levels will be harsh and severely impact the quality of life of Californians. This will require cutting per capita GHG emissions nearly in half over ten years, after already achieving the easiest and most cost-effective reductions.

Governor Brown has noted that an extension of cap-and-trade post 2020 is unfinished business. In order for there to be an extension, there needs to be legislative authority. A market mechanism can be adopted with a simple majority vote of the California Legislature, however, if the CARB is looking for a revenue stream beyond the cost of administering the program, this will require a supermajority in order to approve the tax.

Our comments below include concerns for some design flaws and recommendations to modify elements to ensure an operable, cost-effective program.

#### **TRADE EXPOSURE PROTECTION IS NECESSARY**

The risk of leakage due to costs incurred by California industry, but not their competitors is high. In the last round of amendments to the Cap-and-Trade regulation (2013-2014), CARB extended 100% of the assistance factor into the second compliance period. As it was in the 2013-2014 timeframe, California's market remains largely isolated from other markets where more cost-effective reductions

exist. Accordingly, an extension of 100% industry assistance is still warranted until such time that leakage risk is eliminated, both to maintain the environmental integrity of the program and to protect California jobs and the state's economy. We appreciate the CARB's decision to delay the allocation of post-2020 assistance factors pending additional analysis and look forward to participating in the discussion moving forward.

#### **ACCOUNT REPRESENTATION**

The proposed change requires CARB to review and approve any change an entity makes to their account representation. It is unclear why this change is necessary as it will increase the complexity of compliance and cause delays, as well as increase operating costs and difficulties for both CARB and participating entities.

#### **OFFSETS ARE ESSENTIAL**

CalChamber maintains its position that a robust offset program is a key cost containment mechanism. A robust supply of offsets are required in order to reduce program costs. Therefore, a consideration of offset protocols is encouraged. Expanding the allowable use of offsets is a sound policy choice. Numerous economic studies have shown, including CARB's own analysis, that offsets are the best market-based alternative to reduce costs and limit leakage. Expanded use of offsets is consistent with CARB's statutory obligation to achieve the maximum technologically feasible and cost effective GHG emissions reductions. Offsets are a proven and cost-effective means of meeting AB 32 compliance obligations.

#### **MARKET REFORMS ARE NECESSARY**

In order to ensure market stability and cost-containment, there need to be reforms made to the Allowance Price Containment Reserve (APCR). Post-2020 emissions reductions will constrain the market as the cap declines at a more rapid rate. Price containment in the APCR is necessary if the reserve is to be a true cost-containment mechanism. We recommend that there be further consultation with market experts in order to make necessary reforms to ensure the stability of the market and maximize cost-containment.

We appreciate your consideration and opportunity to comment on the AB 32 Cap-and-Trade Regulation Amendments. We look forward to working with the CARB throughout the process as you consider the proposed modifications. As long maintained by CalChamber, it is critical to design a cost-effective program that reduces GHG emissions while allowing for continued economic growth.

Should you have any questions, please feel free to contact me via email ([amy.mmagu@calchamber.com](mailto:amy.mmagu@calchamber.com)) or at (916) 444-6670.

Sincerely,



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Policy Advocate