



AB 32 Implementation Group

Working Toward Greenhouse Gas Emission Reductions
And Enhancing California's Competitiveness

To: The Honorable Mary Nichols, Chair
California Air Resources Board

FROM: The AB 32 Implementation Group

DATE: September 15, 2014

RE: AB 32 IG Comments Regarding Cap-and-Trade Regulation Design

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.

In July of 2014, the Market Simulation Group (MSG) submitted a report entitled, "Report of the Market Simulation Group on Competitive Supply/Demand Balance in the California Allowance Market and the Potential for Market Manipulation" that outlined several design flaws in the cap-and-trade program. We share many concerns highlighted in the report and we would like to request that the California Air Resources Board have a public meeting to discuss the findings of the MSG. We recognize that these issues are not addressed through the current regulatory packages relating to cap-and-trade before the Board in September, but the program design flaws must be discussed, especially in light of the coming expansion of the cap-and-trade program on January 1, 2015.

With the expansion of the program, all Californians will become direct stakeholders in the cap-and-trade program. To date, the cap-and-trade program has been focused on industrial facilities and the electric utility system. In the case of the electric utility system, the California Public Utilities Commission has developed a program to return cap-and-trade allowance revenue to ratepayers. With the upcoming expansion of the cap-and-trade program to transportation fuels no such return mechanism has been developed.

The Market Simulation Group has warned of small, but potentially significant, design flaws in the cap-and-trade program. These design flaws could trigger significant allowance volatility, potentially impacting all cap-and-trade participants. If those design flaws trigger volatility, it could fundamentally undermine the program and harm all participants in the market and ultimately consumers.

In the Market Simulation Group's Report the authors offer a variety of solutions to address the design flaws. We believe that these potential solutions, along with proposed solutions from stakeholders, should be thoroughly discussed at the next ARB meeting as soon as possible.

In closing, the ARB should pause and discuss these design flaws in the program, especially in light of the coming expansion of the cap-and-trade program. With the significant expansion of the program, any unexpected allowance volatility could create significant issues for obligated entities. Without a discussion, and some public recognition of these issues, we all stand at great risk of unforeseen volatility due to these design flaws that could be addressed.

Should you have any questions regarding our comments and suggestions, please feel free to contact Shelly Sullivan at (916) 858-8686.

cc: California Air Resources Board Members
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