



*Electronically filed*

April 28, 2017

Rajinder Sahota  
California Air Resources Board  
1001 I Street  
Sacramento, CA 95184

**Re: Comments on Proposed Second 15-day Change Amendments Package for Third Compliance Period and Post-2020 Cap-and-Trade Program**

Dear Ms. Sahota:

On behalf of the Environmental Defense Fund, and our over 60,000 members in California, we appreciate the opportunity to comment on the proposed second 15-day change amendments for the third cap-and-trade compliance period and to establish the post-2020 cap-and-trade program.

**General Comments**

EDF appreciates the careful work that ARB staff is putting in as they make incremental but important technical and clarifying refinements to the cap-and-trade regulation. Many of the changes in the 15 day package are amendments of this nature and while we don't take a specific position on every change we want to recognize the work and attention that went into them.

**Industrial Allocation**

EDF appreciates staff's commitment to utilizing the best available data and analysis to determine how much leakage protection is warranted for each sector. We support ARB's decision to continue to analyze the inputs that will inform post-2020 industrial allocation.

EDF has consistently supported some allocation of allowances to support leakage protection. As staff has articulated it is important to continue to balance the goal of minimizing emissions leakage with the goal of ensuring that allowance value is used most prudently and for the benefit of all Californians, especially those in disadvantaged communities.

Allowances represent a valuable asset that businesses can use or sell depending on their need. As such, the default absent a strong regulatory need like leakage assistance should be auctioning, as is consistent with the overall design of the California's cap-and-trade program.

## Utility Allocation

EDF believes that the proposed adjustment to post-2020 utility allocation is an appropriate balancing of policy objectives although other options would also have been acceptable to us. Not imposing the cap adjustment factor on utilities means more allowance value will go to electricity rate-payers verses being invested in greenhouse gas reducing projects through the Greenhouse Gas Reduction Fund. As a report by the UCLA Luskin Center<sup>1</sup> found, this benefit to rate payers is important especially for low-income Californians who may actually see a net economic benefit from climate credits they receive because of the cap-and-trade program. The consignment of allowances allocated to utilities is a critical element of aligning policy priorities and incentives. Without the consignment of allowances, utilities can use allowances to directly offset the cost of compliance whereas with the consignment and climate credit system the incentive to reduce emissions through a carbon price is preserved, but increases in electricity costs are offset for the majority of California households. For this reason, EDF supports the continued and increased use of consignment for electric utilities, natural gas utilities, and for publicly owned utilities as proposed in this 15-day change package.

## Additional Materials available from EDF on Linkage since 45 day comments

While the linkage with Ontario is not directly implicated in this particular 15-day package, there has been some discussion in the academic literature since the 45-day comments were submitted in September that EDF has contributed to and which we would like to include in the record. As noted in our 45 day comments, EDF continues to support the process of linking with the province of Ontario which in January launched a cap-and-trade program that is very similar to California and Quebec's. In a recent Letter to the Editor in the journal *Nature* we respond to an article entitled "Don't link carbon markets" with some historical clarifications on linked markets and our perspective on when and how to evaluate the appropriateness of individual linkage relationships. Our submission is included below.

Sincerely,



Erica Morehouse  
Senior Attorney, Global Climate

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<sup>1</sup> Available at  
<http://innovation.luskin.ucla.edu/sites/default/files/FINAL%20CAP%20AND%20TRADE%20REPORT.pdf>