



California Council for Environmental and Economic Balance

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April 22, 2016

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

RE: Public Workshop on March 29, 2016, to discuss potential amendments to the Cap-and-Trade Regulation related to establishing post-2020 emissions caps and allowance allocation

Dear Ms. Sahota:

On behalf of the members of the California Council for Environmental and Economic Balance ("CCEEB"), we thank the California Air Resources Board ("ARB") for this opportunity to comment on the potential amendments to the Cap-and-Trade Regulation related to establishing post-2020 emissions caps and allowance allocation. 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.

Cap-and-Trade Program

CCEEB supports a well-designed Cap-and-Trade Program as the most cost-effective way to regulate greenhouse gases ("GHG") in California while achieving meaningful reductions in GHG emission levels. A Cap-and-Trade program minimizes costs by providing flexibility, averaging reductions over multi-year compliance periods to allow for more natural retirement of costly infrastructure. The ability to bank emission reductions over a compliance period allows capital investments and the emission reductions from these improvements to be averaged over several years.

The current suite of AB 32 regulations relies heavily on direct command-and-control measures that impact very specific entities and sectors within California's economy. In many ways these direct measures pick winners and losers. Greater reliance on Cap-and-Trade allows for technological innovation and economic solutions across a majority of the economy to achieve the lowest cost GHG reductions. ARB designed the Cap-and-Trade to be the backstop for all of the measures. This policy overlap means that these direct measures do not add additional GHG reductions, they only direct where the reductions are made.

Due to the substantial reductions required in other mandates such as the Renewable Portfolio Standard, Low-Carbon Fuel Standard, and other direct regulations, California's Cap-and-Trade is only responsible for about 15% of our GHG emission reductions. It is CCEEB's belief supported by ARB's own documents¹ and leading economists that an expanded role of Cap-and-Trade could lower the costs of achieving our post-2020 GHG emission reduction goals and by default increase the attractiveness of California's climate program as a model for other jurisdictions considering a cost-effective climate change mitigation strategy.²

Post-2020 Cap-Setting

CCEEB supports ARB staff's proposed "Option 1" at this time. Option 1 is described as a linear decline between the established 2020 cap and the forecasted 2030 cap. According to ARB's 2030 Target Scoping Plan, the current program is achieving the goals set by the ARB and is projected to meet or exceed the 2020 deadline. CCEEB does not see a compelling economic or policy reason to change the goal.

CCEEB does not support "Option 2" which is also a linear decline to a forecasted-2030 cap, but instead relies on adjusting the 2021 cap to reflect forecasted 2020 emissions. CCEEB does not think that an even more aggressive declining cap post-2020 should start by discounting any compliance margin we have garnered in the early years of the program. The Cap and Trade program was designed to allow banking as a cost containment measure, which was affirmed in the workshop. A natural result of banking is a compliance margin that will provide for a smoother transition into the future.

Reducing the quantity of allowances available through pursuing Option 2 could increase prices and unintentionally penalize entities successfully reducing emissions either voluntarily or through meeting the goals of California's suite of "complementary measures," the primary source of emissions reductions in the state.

Additionally, it remains unclear if/how a 2030 cap of 210 million metric tons ("MMT") was calculated in light of the proposed new Global-Warming Potential ("GWP") values for methane and nitrous oxide.

Should other greenhouse gases be included?

California's policy should track the international agreements and not include other emissions that might complicate future opportunities for regional, national, or international linkage.

CCEEB supports the staff direction to maintain the current covered sources and the universe of capped GHG emissions.

¹ Recommendations for Designing a Greenhouse Gas Cap-and-Trade System for California, ARB Market Advisory Committee, June 30, 2007

² Implications of Policy Interactions for California's Climate Policy, Dr. Robert Stavins and Todd Schatzki, August 27, 2012

Conclusion

CCEEB believes that a well-designed Cap-and-Trade should be the center piece of California's climate program and as we look to the future ARB should propose amendments that streamline compliance and focus on cost-effectiveness.

CCEEB thanks the ARB for considering our comments on the potential amendments to the Cap-and-Trade Regulation related to establishing post-2020 emissions caps and allowance allocation. We look forward to playing an integral role in the future development and operability of California's Cap-and-Trade Program. CCEEB represents a broad cross-section of the covered entities in California, and as such, we are in a position to represent diverse industry sectors and would like to assist ARB in developing these ideas further.

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 should you have any questions.

Thank you for considering our comments.

Sincerely,



GERALD D. SECUNDY
President

cc: Honorable Chairman and Members of the Air Resources Board
Mr. Richard Corey
Ms. Edie Chang
Mr. Steve Cliff
Mr. Bill Quinn
Ms. Janet Whittick
The Gualco Group, Inc.