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California Air Resources Board

FR: Climate Change Policy Coalition

Date: October 27, 2017

RE: Cap-and-Trade Program /Next steps for amendments
to the Cap-and-Trade Regulation – October 12, 2017

The Climate Change Policy Coalition [CCPC] (*formerly the AB 32 Implementation Group*) is a diverse group representing California's large and small employers, cap-and-trade regulated entities, taxpayer groups, agriculture interests and building and planning experts. We advocate for policies to reach AB 32 and SB 32 greenhouse gas [GHG] emission reduction mandates and the implementation of California's climate change policies in a cost-effective and technologically feasible manner to protect jobs and the economy.

CCPC believes the best path to achieve the state's long-range environmental objectives is through an integrated and flexible policy framework that optimizes sustainable and cost-effective greenhouse gas (GHG) emission reductions in all programs and sectors. We support a program that allows for cost-containment and market certainty opportunities that prevent market volatility.

A well-designed cap-and-trade program is one of the tools California should use in reaching our aggressive greenhouse gas [GHG] emission reduction mandates. These are CCPC's preliminary [informal] comments in response to the ARB staff presentation and workshop 'Cap-and-Trade Regulation Workshop – October 12, 2017.'

A number of issue areas that fit into a construct of a well-designed program include 3rd CP Assistance Factor, Banking Rules, Unsold Allowances, and Overallocation.

INDUSTRY ASSISTANCE FACTORS

CCPC has long-advocated that industry assistance factors are a necessary component to a well-designed cap-and-trade program. We support the Board and staff's recommendations of 100% for all leakage classifications in the 3rd compliance period of 2018-2020.

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As stated in the ARB presentation, and known by industry since the inception of the cap-and-trade program:

*‘100% assistance factor **does not mean** that entities are allocated all allowances they need to comply with the Program’*

The staff recommendation will protect many California families, businesses, and communities from dramatically higher energy costs while keeping California on track to meet the greenhouse gas emission (GHG) reductions goals.

BANKING RULES

CCPC advocates for the need to preserve the ability to bank allowances. Such a provision provides an opportunity to set the cap-and-trade market up for long-term stability and investment that drives GHG reductions. While there have been questions raised around banking we believe current rules in the cap-and-trade regulation do a good job of ensuring both transparency and market oversight.

OVER-ALLOCATION

CCPC is evaluating the so-called “over-allocation” discussion and views this as a solution looking for a problem. What we’re currently seeing in the cap-and-trade market relative to the business as usual forecast is indicative of the fact that the program is working. In fact, rather than calling this an “over-allocation” issue, in reality, this is an over-compliance issue where the state has actually been even more successful reducing its emissions than was originally anticipated. The fact that the state has gone above and beyond what was originally expected with regard to GHG emission reductions should be celebrated, not considered to be a problem. In fact, the state’s Legislative Analyst’s Office found that the supply question is potentially being driven by, among other things, the fact that command-and-control programs are reducing emissions more than originally anticipated. If that’s the case, then perhaps ARB should look at dialing back some of the stringency of the state’s command-and-control programs.

UNSOLD ALLOWANCES

Unsold allowances still represent an important piece of the carbon market by playing a role in market stability. ARB should continue to return unsold allowances to the auction. This will allow regulated entities in the cap-and-trade market to bid on allowances in subsequent auctions and will improve allowance credit supplies.

CCPC agrees the cap-and-trade market mechanism continues to provide opportunities to reduce the costs of achieving GHG emission reductions under California climate change policies. Providing flexible options for compliance is crucial for companies that have limited ability to make onsite

reductions, desire to expand their operations in California, or have a capital investment cycle that would not necessarily be synchronized with demands of a command-and-control type regulation.

We look forward to participating in additional cap-and-trade workshops that offer more comprehensive details to ARB staff recommendations to the cap-and-trade regulation. Should you have any questions or need anything further please feel free to contact Shelly Sullivan at (916) 858-8686.