July 5, 2018

Ms. Rajinder Sahota
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Submitted electronically via: www.arb.ca.gov/cc/capandtrade/meetings/meetings.htm

RE: Workshop to Continue Informal Discussion on Potential Amendments to the Cap-and-Trade Regulation, June 21 2108

Dear Ms. Sahota:

Thank you for very helpful and informative materials presented at the June 21, 2018 workshop. CARB staff has clearly put a lot of time and thought into considering potential updates to the cap-and-trade regulation, as well as the comments submitted by stakeholders, and EDF appreciates these efforts.

Below are a few brief comments in response to the topics presented at this workshop.

Electrical Distribution Utilities and Natural Gas Supplier Use of Allowance Value

The current cap-and-trade regulation requires that electrical distribution utilities (EDU) and natural gas suppliers use the value of allocated allowances for the exclusive benefit of ratepayers, consistent with the goals of AB 32. When consigned to auction these allowances generate value which has been used overwhelmingly to fund the twice-annual California Climate Credit.

In 2016, the Luskin Center for Innovation at UCLA released a report, "Protecting the Most Vulnerable: A Financial Analysis of Cap-and-Trade's Impact on Households in Disadvantaged Communities Across California," which found that low-income electricity and natural gas customers receive a net benefit from the California Climate Credit program. That is, the climate credit they received on their utility bill twice a year more than offsets any price increases of these services due to cap and trade.

EDF believes that it is important to see programs like this which directly benefit residents and ratepayers, especially the most vulnerable, continue. While updates and clarifications may be necessary, it is important that the ratepayers, and especially those who are low-income, continue to receive a net benefit.

Post-2020 Cap

EDF appreciates staff sharing their thinking in setting the 2030 cap and how the methodology compares to the cap-setting for 2020. While EDF did not doubt the accuracy of staff's analysis, it is helpful to more fully understand the 2030 cap-setting methodology and it's similarities with the initial process, as well as the consideration that 2020 emissions are expected to be below the cap.

As we have shared before, EDF does still see an opportunity for a modest cap adjustment post-2020. The 52,400,000 allowances that CARB currently has slated to place in the post-2020 price containment reserves represents the potential for increased program ambition. The cap-and-trade program has been successful at reducing emissions, as demonstrated by current emissions being below the cap, and tightening the post-2020 cap puts California on even stronger footing to meet the 2030 target.

Considering the additional cap-setting analysis staff has shared, the justification for making this cap adjustment in the regulatory package is that the cap-and-trade program now contains a firm price ceiling with environmental integrity protection. Before AB 398 these 52,400,000 allowances could be regarded as additional price protection. However, the new hard price ceiling will provide absolute price protection. If the price ceiling is triggered and reductions are sold above the cap, AB 398 requires CARB to use the resulting revenue to secure reductions on at least a ton-for-ton basis. If these 52,400,000 tons are placed in the price containment reserve instead of removed from the annual budgets that will mean a delay in triggering that environmental integrity mechanism and will represent 52,400,000 fewer tons of reductions for the atmosphere.

International Sector-Based Offsets

In the most recent workshop, CARB staff requested input on the types of reductions that could be available should the program's price ceiling be met. EDF would like to reiterate its call for the inclusion of international sector-based offsets from tropical forests in the cap-and-trade program. There is potential need for a significant number of high-integrity emission reductions at the price ceiling, but only a limited supply of these reductions are currently available. International sector-based offsets are a source of these high-integrity reductions.

CARB has done extensive work on potential crediting for reduced emissions from tropical forests over the last decade, and we strongly urge you to move forward this year. Aside from the importance of ensuring future cost-containment options for its own program, California has the opportunity to establish a regulatory standard that sets a high bar for tropical forest programs. That is, to ensure programs demonstrate both high environmental integrity and robust social safeguards - and for future markets accepting tropical forest credits to also require those high standards as well.

California leading such a global gold standard would have important ripple effects, such as by influencing the Carbon Offsetting and Reduction Scheme for International Aviation developed by the International Civil Aviation Organization. The state is uniquely positioned to set a global high bar for the quality of programs aimed at reducing forest emissions. By proceeding with the development of a crediting pathway with carefully designed rules, California can develop a model that drives large-scale emissions reductions far beyond those achievable within the state's borders and improves the livelihoods of forest communities.

Because of California's cooperation with Acre, Brazil and extensive work in collaboration with other tropical forest stakeholders and jurisdictions, California is well-positioned to develop robust standards for this type of international reduction credit. A careful and transparent process, such as the one that California and Acre can undertake jointly, can provide a model for others to emulate on both the supply and demand sides of tropical forest carbon crediting mechanisms.

<u>Western Climate Initiative</u>

EDF is deeply disappointed in the recent political decision in Ontario to end their cap-and-trade program and withdraw from the Western Climate Initiative. While much remains unknown about Ontario's next steps, EDF would like to commend the staff of CARB and the WCI partner in Quebec for taking swift and decisive action to maintain the stability and integrity of the linked market.

Thank you for your consideration of these comments.

Sincerely,

Katelyn Roedner Sutter

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