



California Independent Petroleum Association
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**California Independent Petroleum Association Comments
on the Cap-and-Trade Regulation Industry Assistance Factor Calculation
Informal Staff Proposal**

November 4, 2016

California Air Resources Board
1001 I Street
Sacramento, CA 95814

Via electronic submittal to: https://www.arb.ca.gov/lispub/comm2/bcsubform.php?listname=ct-amendments-ws&comm_period=1

The California Independent Petroleum Association (CIPA) appreciates the opportunity to submit the following comments to the California Air Resources Board (ARB) for its consideration. These comments respond to and focus on the October 21, 2016, Mandatory GHG Reporting and Cap-and-Trade Program Workshop related to the calculation of industry assistance in determining allowances under the Cap-and-Trade Program in the post-2020 time frame.

The mission of CIPA is to promote greater understanding and awareness of the unique nature of California's independent oil and natural gas producers and the marketplace in which they operate; highlight the economic contributions made by California independents to local, state and national economies; foster the efficient utilization of California's petroleum resources; promote a balanced approach to resource development and environmental protection and improve business conditions for members of our industry. In-state petroleum production can play a role in helping the state meet its dual goals of a strong statewide economy while reducing GHG emissions in California.

Retaining the industry current Assistance Factor level is the best way to combat the threat of GHG emissions leakage from our industry. CIPA understands the importance of this issue within the Cap-and-Trade Program, but also highlights that failing to maximize the free allocations to California's oil and gas industry prior to a more uniform and ubiquitous carbon price signal worldwide puts California entities at a disadvantage. Crude oil is an international commodity. Any reduction in the Assistance Factor (AF) from its current level will create added pressure for potential leakage of GHG emissions to other regions not similarly regulated. Though a few additional jurisdictions are beginning to start down the road of putting a price on carbon, the transition relief currently provided is still needed, as the threat of leakage from world crude oil imports hasn't decreased since California's Cap-and-Trade Regulation was first adopted.

Uneven regulation of GHG emissions has the unintended consequences of incenting the importation of crude oil. The pull from other markets, less regulated oil-producing regions, is real. California's progressive implementation of emissions targets makes carbon an additional factor affecting costs for petroleum producers. Retaining the current AF for in-state oil producers will continue to ease the disparity caused by the Cap-and-Trade compliance costs.

Further, more stringent 2030 GHG targets should look to coincide with potential advances in emissions-reducing technologies available to industry. The AF is one part of the overall allowance formula; however, maximizing that value provides an opportunity for limited capital to be directed at emission reductions, rather than purchasing compliance obligations.

As noted in both Appendix E of the Cap-and-Trade rulemaking package¹ and the Informal Staff Proposal presented at the workshop,² the Oil and Gas sector was not studied as part of the broader industry leakage analysis. Additionally, the Informal Proposal highlights a lack of quality data and data discrepancies surrounding a variety of sectors, including Oil and Gas. CIPA supports staff's decision to hold off on post-2020 Assistance Factors recommendations until the data surrounding this sector is better understood and more detailed analysis can be performed. We also believe that such an important and complex analysis should not be rushed in the remaining time frame of this rulemaking, and should not be completed in a shortened 15-day amendment package.

As this is an important matter to CIPA members, we are committed to working with ARB on this critical design feature of the Cap-and-Trade Program and look forward to upcoming discussions. Thank you for your attention. Any questions or follow-up comments can be directed to rock@cipa.org.

Sincerely,



Rock Zierman
CEO

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¹ <https://www.arb.ca.gov/regact/2016/capandtrade16/appe.pdf>

² <https://www.arb.ca.gov/cc/capandtrade/meetings/20161021/ct-af-proposal-102116.pdf>