

March 28, 2016

Rajinder Sahota, Branch Chief, Cap-and-Trade Program
Craig Segall, Senior Staff Counsel
California Air Resources Board
1001 I Street
Sacramento, California 95812

RE: Trading-Ready Program Design

Dear Ms. Sahota and Mr. Segall;

The undersigned write to recommend that the California Air Resources Board (ARB) incorporate changes to the California Cap-and-Trade program to enable the state to submit a state plan pursuant to the Clean Power Plan (CPP) that would be considered 'trading-ready' upon approval. For the reasons that follow, we respectfully request staff to consider this position.

We do not propose that California consider linking to other states now; this decision can only be made after other state CPP plans are developed and ARB has given full consideration to linking in accordance with Senate Bill 1018. Rather, we recommend that ARB build the necessary architecture into the Cap-and-Trade program and indicate in the state plan submission to EPA that California wishes to be deemed trading-ready. This would expedite linking and trading once the requirements of SB 1018 have been satisfied with respect to linkages with other trading-ready states.

We believe hard-wiring the necessary trading-ready infrastructure into the State's post-2020 Cap-and-Trade program at this time offers two key advantages. First, it would signal to other states currently developing their respective CPP state plans that California intends to support the overall framework of the CPP and participate in a linked carbon market under the CPP. And second, by sending that signal, it has the potential to strengthen the design of other states' plans (e.g. by highlighting the importance of including new sources) and the subsequent performance of a linked market that includes California. While ARB can make statements indicating its intention to pursue such linkages in the future, ARB can be more proactive and advance a linked carbon market by submitting a trading-ready plan. This would not commit ARB to undertake linkages in the future, but would enable those linkages to occur at the earliest opportunity in the event it should choose to pursue them.

If the requirements of SB 1018 are met, linkage of California's multi-sector allowance trading programs to other CPP allowance trading programs has the potential to provide significant benefits for California. It would provide for a broader, deeper and more liquid carbon market, which would in turn reduce compliance costs for all covered entities and reduce impacts on California utility customers and consumers. Linkage of California's program to effective programs in other Western states that include new sources would ensure a consistent carbon price for generation in the linked jurisdictions, thereby eliminating the potential for emissions leakage. Such a consistent price signal would also provide important incentives for dispatch under an expanded Energy Imbalance Market.

This approach also has benefits if the California Independent System Operator is transformed into a regional organization.

We note that a number of significant changes to the Cap-and-Trade program are already needed to conform with CPP requirements under a state measures approach; e.g., incorporation of an appropriate federally enforceable “backstop” and triggers. The incremental changes and additional elements needed to make the program “ready for interstate trading” are modest relative to those already required. The most significant is the addition of a simple provision to account for any transfer of allowances with linked CPP states in the state performance period reporting. These accounting mechanisms—net “import” and “export” adjustments—can and should be built into the Cap-and-Trade program and state plan now, in anticipation of trading-ready alignment of California’s post-2020 program with the CPP plans of other states. We also encourage ARB to work with EPA to ensure the Compliance Instruments Tracking System Service (CITSS) is EPA-approved for CPP trading.

By incorporating trading-ready changes in the Cap-and-Trade regulation for the post-2020 period and into its CPP state plan, ARB can avoid a potentially lengthy process for resubmission and approval of the state plan at the time when linkages with other states’ allowance trading programs are considered. Because the California program would already contain the elements necessary to facilitate recognition of other states’ allowances and the accounting mechanisms needed to demonstrate compliance with California’s CPP goals, ARB would only need to ‘activate’ the linkage with specific CPP states upon satisfaction of the requirements of SB 1018. So long as such accounting mechanisms and the overall framework that would make CITSS interoperable with other states’ tracking systems are built into the Cap-and-Trade program, we believe that ‘activation’ of a linkage would not require resubmission of the state plan to begin recognizing allowances from other states and allow other states to recognize California allowances.

Conversely, Staff’s proposed approach would mean that ARB would need to formally revise its Cap-and-Trade regulation if and when ARB considers linking with other states, not only to approve use of allowances from other states, but also to make more substantive changes to account for allowance transfers with other states. California’s revised state plan would then need to be submitted to EPA for consideration and approval. The time required for these procedural requirements suggest that linkage to other state CPP programs could not occur until the second CPP compliance period (2025) at the earliest.

For these reasons, we urge ARB staff to address all the changes necessary to make the California Cap-and-Trade Program trading-ready under the CPP in this year’s rulemaking. Development of a trading-ready state plan would continue California’s leadership in addressing climate change and send a strong signal that California remains open to partnering with other states seeking to satisfy the requirements of the CPP and pursue meaningful carbon reductions. As other states consider their options for CPP compliance, opportunities for cooperation and the advantages of a broadly linked market will be a central consideration. A trading-ready state plan would, as ARB suggested in its 2014 comments to EPA, advance the role that the California Cap-and-Trade program could serve as the catalyst for a well-designed market-based emission program throughout the West and beyond.

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We look forward to working with ARB Staff to assure that the Cap-and-Trade program continues to play a leadership role by developing a post-2020 program that advances the goals of the CPP and integrates well with broader trading markets that may develop.

Thank you,



Stephen J. Wright, General Manager
Chelan County Public Utility District No. 1



Barbara McBride, Director Environmental Services
Calpine Corporation



Alex Jackson, Legal Director California Climate Project
Natural Resources Defense Council



Ray D. Williams, Director Energy Policy and Procurement
Pacific Gas and Electric Company



Clare Breidenich, GHG Committee Director
Western Power Trading Forum

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CC: Mary Nichols, Chair
Steve Cliff, Senior Advisor