

March 16, 2018

Ms. Rajinder Sahota  
Assistant Division Chief, Industrial Strategies Division  
California Air Resources Board  
1001 I Street  
Sacramento, CA 95814

**SUBJECT: COMMENTS ON THE CAP-AND-TRADE REGULATION WORKSHOP (MARCH 2, 2018)**

Dear Ms. Sahota:

The California Chamber of Commerce (CalChamber) appreciates the opportunity to comment on the California Air Resources Board (CARB) Cap-and-Trade presentation released March 2, 2018.

CalChamber is the largest broad-based business advocate in the state, representing the interests of over 13,000 California businesses, both large and small. Many of CalChamber's larger members are directly covered by the cap-and-trade regulation, while other smaller members experience the indirect impacts in the form of increased energy costs passed down from upstream fuel and energy providers.

CalChamber strives to remain a productive stakeholder throughout the AB 32/SB 32 and AB 398 implementation processes as well with future post-2020 climate policies, in order to advance the greenhouse gas (GHG) emission reduction goals in the most cost-effective manner while protecting California businesses and allowing for economic growth across all sectors of the economy. We have long maintained that if designed properly, a market-based mechanism has the ability to garner significant GHG reductions in a cost-effective manner.

The Cap-and-trade program is a more cost-effective approach than command and control and less likely to discriminate unfairly against particular industrial sectors. California's greenhouse gas reduction laws post 2020 will be unworkable without a well-designed market mechanism. Our comments below include concerns for some design flaws and recommendations to modify elements to ensure an operable, cost-effective program.

**INDUSTRY ASSISTANCE FACTORS**

The risk of leakage due to costs incurred by California industry, but not their out-of-state competitors is high. In the last round of amendments to the Cap-and-Trade regulation, CARB extended 100% of the assistance factor into the second compliance period. As it was in the 2013-2014 timeframe, California's market remains largely isolated from other markets where more cost-effective reductions exist. Accordingly, an extension of 100% industry assistance is still warranted until such time that leakage risk is eliminated, both to maintain the environmental integrity of the program and to protect California jobs and the state's economy.

CalChamber agrees that industry assistance factors are a necessary component to a well-designed cap-and-trade program. We support the staff recommendation of 100% for all leakage classifications in the 3<sup>rd</sup> compliance period of 2018-2020. Given that all post-2020 industry assistance allocations will be made at 100% for the remainder of the program, it will be disruptive to operations to reduce assistance levels for one compliance period and then return to 100% assistance.

**PRICE CEILING**

The cap-and-trade program is intended to achieve greenhouse gas reductions with the least cost. The price ceiling provision set into law under AB 398 is intended to represent the need to avoid adverse impacts on households and the state's economy. The price ceiling of \$150.00 as proposed by the CARB presentation on March 2, 2018 is concerning since the potential impact on consumers and the economy will be significant and it could result in roughly an additional \$1.50 per gallon of gasoline as well as increased energy costs.

**BANKING RULES**

The banking of allowances provides an opportunity to set the cap-and-trade market up for long-term stability and investment that drives GHG reductions. Current banking rules in the cap-and-trade regulation are working to ensure both transparency and market oversight.

**OVER-ALLOCATION**

Our initial review has shown that there really is no "over-allocation." The cap-and-trade market relative to the business as usual forecast is indicative of the fact that the program is working. Rather than over-allocation, this can be viewed as over-compliance by industries as a result of command and control measures.

**OFFSETS ARE ESSENTIAL**

CalChamber maintains its position that a robust offset program is a key cost containment mechanism. A robust supply of offsets is required in order to reduce program costs. Numerous economic studies have shown, including CARB's own analysis, that offsets are the best market-based alternative to reduce costs and limit leakage.

Should you have any questions, please feel free to contact me via email ([amy.mmagu@calchamber.com](mailto:amy.mmagu@calchamber.com)) or at (916) 444-6670.

Sincerely,

A handwritten signature in black ink, appearing to read 'Amy Mmagu', with a large, sweeping flourish at the end.

Amy Mmagu  
Policy Advocate