



California Independent Petroleum Association

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Comments of the California Independent Petroleum Association
on the September 4, 2018 Cap and Trade Regulatory Package

Clerk of the Board
California Air Resources Board
1001 I Street
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Via electronic submittal to: https://www.arb.ca.gov/lispub/comm/bcsubform.php?listname=ct2018&comm_period=A

The California Independent Petroleum Association (CIPA) appreciates the opportunity to submit comments on this important regulatory effort. Last year a large coalition of stakeholders, including CIPA, worked to produce Legislation (AB 398) focused on both extending the California Air Resources Board's (CARB or Board) authority to implement the Cap and Trade Program (Program) through 2030, *and* on ensuring robust cost containment features of the program. This rulemaking effort is focused on implementing of AB 398, and therefore CIPA submits the following focused comments for your consideration.

The mission of CIPA is to promote greater understanding and awareness of the unique nature of California's independent oil and natural gas producer and the market place in which he or she operates; 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.

This regulatory package has a variety of impacts on the Program which could directly impact CIPA members—most importantly the overall cost of compliance. Our comments are focused on the cost-containment aspects of the Proposal, including the establishment of an allowance price ceiling, two price tiers (also known as “speedbumps”), and new rules surrounding the use of offsets. CIPA is supportive of CARB's proposal to leave many of the other market aspects unchanged, including banking rules, program allowance budgets, and general structure of the program. These consistent policy signals allow for longer-term decisions and investments to be made by Program stakeholders.

Staff's proposed price ceiling level of \$65 starting in 2021 and escalating at 5% plus inflation does not provide the cost-containment protections envisioned by AB 398. This value could easily exceed \$110/ton given even moderate inflation over the next decade. CIPA believes these values and the trajectory of the ceiling price that radically diverges from the floor is inappropriate. CARB has repeatedly stated that a stable and consistent increase in the floor price is a necessary

component to the Program. Having a rapidly increasing ceiling price seems to be in contrast to that fundamental policy of sending a stable price signal. CIPA recommends a ceiling price trajectory more in line with the nominal rate of increase experience by the floor price.

Similarly, CARB's proposal of establishing the two price containment tiers, or speedbumps, at levels of $\frac{1}{2}$ and $\frac{3}{4}$ spacing between the floor and proposed ceiling do not meet the expectation of AB 398. There are specific provisions in AB 398 which trigger when these tiers are hit by the market signals. Setting them higher than necessary prevents those statutory actions (market analysis) from occurring. CIPA recommends that the price tiers be set at $\frac{1}{3}$ and $\frac{2}{3}$ intervals between the escalating floor and a reasonable ceiling price.

CIPA supports CARB's approach to offsets in this regulatory package. We believe it is a reasonable approach to implementing the provisions of AB 398. The staff report accompanying this proposal reaffirms some of the major benefits of the offset program, including cost containment and creation of real reductions outside of regulated sectors. We specifically support CARB's proposals on the following offset-related issues:

1. Definition of Direct Environmental Benefit (DEB) and Ceiling Price Unit;
2. The structure of Section 95854(b) related to offset usage limits;
3. The determination that in-state offset projects using CARB-approved protocols meet the DEBS definition; and
4. Inclusion of a pathway for out-of-state offsets to show how they could also provide DEBS.

Conclusion

This rulemaking process has been extensive, and is by no means at a closing point. CIPA understands the intent of AB 398 was to initiate real, functioning cost containment provisions and not set those levels so high as so they won't be a factor in the market. Since crude oil is a world-wide commodity and the income producers receive does not adjust for the costs for Cap and Trade compliance these impacts could result in early retirement of locally produced crude, and could reduce jobs, taxes, and impact on the State's reliable highly-regulated energy supply. Such impacts also carry over to the cost borne by Californians in their daily fuel cost. We hope to keep the lines of communication open on these very important issues as this rule goes from adoption to implementation. Please reach out to CIPA should you have any questions or would like to discuss further.

Sincerely,

/s/

Rock Zierman
Chief Executive Officer
California Independent Petroleum Association