BP America, Inc.

Ralph J. Moran
1201 K Street, Suite 1990
Sacramento, CA 95814
(916) 554-4504

DATE: March 20, 2018

Via Email
Rajinder Sahota
California Air Resources Board
1001 I Street, P.O. Box 2815
Sacramento, CA 95812

Subject: Comments on the Preliminary Discussion Draft of Potential Changes to the Regulations for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms

Dear Ms. Sahota:

BP appreciates the opportunity to provide comments on proposed Amendments to the Cap-and-Trade Regulation as discussed at the March 2, 2018 workshop.

Use of Allocated Allowance Value
CARB staff is exploring how to more clearly assess and reduce ambiguity as to whether allowance proceeds from consigned allocation are benefitting ratepayers in accordance with the goals of AB 32. CARB staff is looking to meet these objectives in a manner that increases clarity for EDUs and natural gas suppliers and that streamlines oversight.[1] BP offers the following suggestions on how CARB may achieve these outcomes.

To begin, BP supports Publicly Owned Electric Utilities (POU) and Electric Distributing Utilities (EDU) fully utilizing offset quotas to meet compliance obligations. Full utilization ensures entities are pursuing the lowest cost of compliance thereby benefitting utility ratepayers.

Based on publicly available information from CARB, entities considered in the Power In-state NAICS designation have foregone approximately 4.5MMt of potential offset use across Compliance Period 1 (CP1) and a projected 15.6MMt of potential offset use across Compliance Period 2 (CP2).

[1] Preliminary Discussion Draft of Potential Changes to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms, Page 39, https://www.arb.ca.gov/cc/capandtrade/meetings/20180302/ct_pdd_02232018.pdf

Period	Offset Retirements	Offset Capacity	Missed Offset Opportunity
CP1	6,135,005	10,615,333	4,480,328
CP2	1,294,524	16,901,590	15,607,066

Assuming offsets are discounted $1/ton compared to allowances across CP1 and CP2, this would translate to $20.1MM of uncaptured, potential savings from full offset participation use across in-state power market participants. Permitting POU's and EDU's to utilize proceeds from their allocated allowances toward the purchase of offsets for compliance may provide the incentive necessary for them to begin fully utilizing their offset quota, resulting in an overall reduction in their cost of compliance. Full use of offset quotas benefits all regulated entities and energy consumers.

Further, BP supports POU's and EDU's obtaining voluntary quantities of offsets with allowance proceeds above and beyond their compliance needs as an approved method for reducing GHG's. Currently, funds from consigned allowances above what is needed for compliance must be directed to an activity that reduces GHGs. Entities purchasing offsets with allowance proceeds as a GHG emission reduction activity is in accordance with the goals of AB 32, specifically:

- "(B) Energy Efficiency and Fuel-Switching: Funding programs designed to reduce greenhouse gas emissions through reductions in energy use, changes to lower emission intensity energy sources or other GHG emission reduction activities." (page 38 of draft regulation)
- "(E) Use of allocated allowance auction proceeds authorized under sections 95892(d)(3)(A) and (B) must demonstrate quantifiable GHG emission reductions." (page 39 of draft regulation)
- "ARB offset credits represent verified greenhouse gas (GHG) emission reductions or removal enhancements achieved under ARB's Compliance Offset Protocols or approved early action quantification methodologies."[2]

Additionally, CARB has indicated a desire to have more visibility as to how these funds are used for emission reduction benefits, and the current CITSS framework already provides a means to achieve this with voluntary offset purchases. Entities may voluntarily surrender offsets by initiating a CITSS transfer from their General Account to their Retirement Account. This may be achieved by selecting 'Initiate a Transfer' and selecting the 'Type of Transfer' as 'Voluntary Retirement.' Voluntary Retirement will initiate a transfer of compliance instruments to the Jurisdiction Retirement Account. This action requires Jurisdiction approval and once the transfer is completed, it cannot be reversed. Voluntarily surrendering compliance instruments to the Retirement Account is permanent and does not fulfill any compliance obligations for GHG emissions. CARB would then be able to reconcile the value of consigned allowance proceeds above compliance obligations with the volume of voluntary offset retirements to prove that POU's and EDU's are complying with the requirement to use those proceeds for GHG reduction activities.

[2] Pg1 https://www.arb.ca.gov/cc/capandtrade/offsets/issuance/issuance.htm

Price Ceiling
AB 398 directs CARB to: "Establish a price ceiling… consider[ing]… all of the following: (I) The need to avoid adverse impacts on resident households, businesses, and the state's economy. (II) The 2020 tier prices of the allowance price containment reserve. (III) The full social cost associated with emitting a metric ton of greenhouse gases. (IV) The auction reserve price. (V) The potential for environmental and economic leakage. (VI) The cost per metric ton of greenhouse gas emissions reductions to achieve the statewide emissions targets established in Sections 38550 and 38566." [3]

BP supports a price ceiling in order to preserve the benefits of having a program based on a traded market mechanism, to protect consumers and businesses from unnecessarily high energy costs and to incentivize investments in the new technologies necessary to achieve the state's GHG reduction goals. A dynamic price ceiling can be implemented by mimicking the calculation for the current floor price, starting at a set price and escalating each year according to a set annual percentage plus inflation. By having a floor price and ceiling price that move together over the course of the program, CARB will ensure that a wide range of technologies continue to be considered for economic compliance solutions while protecting the state's consumers and industry.

Price Containment Points
AB 398 directs CARB to: "Establish two price containment points at levels below the price ceiling. The state board shall offer to covered entities non-tradable allowances for sale at these price points. The price containment points shall be established using two-thirds, divided equally, of the allowances in the allowance price containment reserve as of December 31, 2017."[4]

BP suggests the price containment points be set in a relative manner as a percentage between the ceiling and the floor. A percentage basis is appropriate for this application because the following year floor price is only known upon publication of the full year's Consumer Price Index. Additionally, the speed bumps should be set as a percentage because absolute values will be impacted over time depending on inflation from one year to the next.

Any future changes to the price ceiling and/or containment points should be approached cautiously so as to avoid undermining and penalizing investment and early action.

Banking and "Overallocation"
AB 398 includes holding limits which are the measures in place to limit the extent to which entities can bank allowances. Staff requests stakeholder feedback on which factors, in addition to those in AB 398, are important to assess to determine if any modifications to existing banking rules are needed.[5]

---

[3] Health & Safety Code § 38562(c)(2)(A)(i)

[4] (Id. at 38562(c)(2)(B)) (page 2 of proposal https://www.arb.ca.gov/cc/capandtrade/meetings/20180302/ct_price_concept_paper.pdf)

[5] Slide 21 from the Amendments to Cap-and-Trade Regulation Workshop

According to the whitepaper *Allowance Supply and Demand in the California Cap-and-Trade Program*, allowance banking is an important market design feature that promotes the State's climate regulation goals. Debates about oversupply inevitably involve debates about allowance banking, since the perceived concern about oversupply arises from a fear that allowance banking allows entities to avoid reducing emissions. Allowance banking, however, promotes early investment in emissions abatement measures and plays an important cost containment role, without compromising environmental integrity.[6]

BP believes that CARB should avoid penalizing covered entities and should not make the program even more stringent in response to early action. Penalizing early action incentivizes entities in the future to avoid doing more than what is minimally required.

BP advises against CARB making any banking rule changes and believes that the current allowance surplus is a result of early action, not overallocation. The fact that emissions are low is reason to celebrate the success of the program – not reason for hand wringing or design changes.

Direct Environmental Benefits to the State (DEBS)

Though BP is concerned with AB 398's requirement to reduce the use of an important cost containment design element – i.e. offsets – we propose the following as a way to implement the spirit of AB 398 and to introduce the quantitative usage limits in a way that meets the requirements for achieving Direct Environmental Benefits (DEB) to the State without introducing significant processes for projects and CARB that damage the efficiency and integrity of the offset program.

In order to achieve the outcomes required, BP is suggesting language that would enable a screening process to allow rapid assessment of whether a project outside of California reduces emissions to water that is adjacent to a water body that flows into or through California or is in a catchment area that flows directly into a body of water that comes into contact with the coast of California.

Beyond the initial screening, projects would need to provide additional information that would be subject to a CARB assessment. This information should be limited to showing that the project reduces emissions of pollutants to water and that there is a pathway between the project location and California via a body of water that flows through or touches the coast of California.

If the requirements were to include details of the emissions at the source, the pathway to California and details of the resulting pollution within California, the process would require complex dispersion modelling and reporting of the results as well as high levels of resources to assess the results. This approach would not allow projects to show pathways between seas or oceans. It limits the pathway to drainage basins that flow into California or into a body of water that touches the coast of California.

Regarding the assessment process, BP encourages CARB to conduct the assessment of DEBS for new projects as part of the listing process to avoid assessment later in the process

[6] Allowance Supply and Demand in the California Cap-and-Trade Program, Robert A. Wyman and Jean-Philippe Brisson February 23, 2018

after projects have committed to monitoring and verification costs. To avoid the DEBS assessments causing long listing delays, the simplified approach that does not require dispersion modelling should avoid complex applications and assessments.

For existing projects we recommend a separate CARB assessment, that is kept efficient via:

- The simplified screening and approval of projects in California or located adjacent to a water body that flows into or through California
- For projects that are located in a drainage basin that feeds directly into a body of water that touches the coast of California, the DEBS assessment template is processed within 3 months or receipt with a maximum 6-month timeline for a CARB decision

BP recommends that the DEBS submission should remain confidential due to the submissions potentially including confidential business information regarding the underlying process. Sources of pollution are subject to the relevant state regulatory agencies. If the DEBS assessments are public, the process could quickly encounter extensive delays.

California ISO EIM Design Changes

BP believes that CAISO's proposal on resource scheduling and GHG adders in the EIM discussion at the recent workshop should not be implemented at this time. On its own merits, such a proposal likely will lead to a number of unintended consequences that will potentially undermine economic efficiency of real-time dispatch while not addressing underlying concerns about GHG emissions.

Also, the CAISO proposal cannot be viewed in isolation of CARB's GHG program. The CAISO market is currently in a state of substantial regulatory flux with respect to the availability of natural gas for gas-fired generation in CAISO, potential changes in the number of participants in the EIM in the face of alternatives (such as SPP), and the CPUC's current proceeding on CAISO's resource adequacy mechanism. CAISO, CARB, and the CPUC should work closely to ensure that all moving parts are synchronized in a way that increases the efficiency and reliability of the CAISO market while effectively addressing CARB's GHG goals.

Conclusion

As California looks toward meeting its longer-term climate goals, it's more important than ever that the focus be on the most efficient and cost-effective approaches. A well-designed cap and trade program should be the backbone of these efforts. We believe AB398, though not perfect, was an important step in extending and improving this cornerstone of the state's climate efforts and we look forward to working with the state to implement this statute in regulation.

Sincerely,

Ralph J. Moran
Sr. Director, Governmental & Public Affairs
BP America, Inc.