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California Air Resources Board
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IETA COMMENTS TO CALIFORNIA AIR RESOURCES BOARD (ARB)
2030 SCOPING PLAN UPDATE & ECONOMIC ANALYSIS WORKSHOP

On behalf of the International Emissions Trading Association (IETA), we appreciate the opportunity to provide comments on California Air Resources Board (ARB)'s 15 January 2030 Scoping Plan Workshop.

As recognized by ARB and IETA, 2016 represents a pivotal juncture for California's climate leadership, as the state considers potential 2016 cap-and-trade regulation amendments, seeks future market linkage opportunities, explores U.S. Clean Power Plan (CPP) compliance pathways, and maps-out a new Scoping Plan to reach aggressive 2030 climate and energy goals.

IETA continues to support ARB's policy and market leadership on climate change, including the state's laudable efforts to ensure that policy choices are **guided by sound economic analysis** that will gauge both climate and financial impacts on business and consumers, along with macroeconomic impacts to California's GDP and labor market.

California's ambitious mid and long-term climate targets require significant accelerations in deep greenhouse gas reductions across the economy. It is therefore more essential than ever for California to focus on using **policy tools that achieve climate goals in the most cost-effective and efficient manner possible.** IETA strongly believes that identifying/assessing California's 2030 climate pathway must be underpinned by analytical assumptions and tools that elucidate **cost per tonne of carbon dioxide equivalent (\$/tCO2e)** abated for each policy option. This metric should represent a key criterion for ARB's 2030 Scoping Plan efforts.

IETA encourages ARB to take into account several considerations while moving forward with the 2030 Scoping Plan – including the Plan's economic analytical approach and decision-making criteria underlying these efforts. IETA's detailed comments are structured around the following areas:

1. **Cap-and-Trade Delivers Climate Outcomes at Least-Cost;**
2. **Ensuring True "Complementarity" with the Market;**
3. **Transparent and Frequent Policy Impact Assessments; and**
4. **Recommendations to Ensure True "Complementarity".**

1. CAP-AND-TRADE DELIVERS CLIMATE OUTCOMES AT LEAST-COST

Cap-and-trade should continue to be the instrument of choice for California policy-makers. An active and vibrant carbon market, which empowers and drives market efficiencies and clean private investment, will prove essential in driving investment in the most cost-effective solutions for California.

We urge California to use its cap-and-trade program as the backbone, rather than backstop, means to deliver climate objectives at least cost. While assessing success to date and mapping its path and measures to reach ambitious 2030 targets, California must remedy or avoid policy mechanisms that may have "intuitive appeal", but are unlikely to have material effects on GHG reductions.

While proceeding with its 2030 Scoping Plan process (along with other 2016 rule-makings and policy analytics) we hope to see ARB focus significant efforts on cap-and-trade program strengthening, design improvements, and cross-border linkages to enhance market participation, cost-containment, and deeper reductions across major emitters. Non-market measures should be relegated to other sectors for incremental reductions *where cap-and-trade is not easily applied.*

2. ENSURING TRUE "COMPLEMENTARITY" WITH THE MARKET

All existing and future complementary mechanisms must be designed to ensure true and transparent "complementarity" with California's linked cap-and-trade program. Inhibiting market program functionality and efficiencies will ultimately stifle California's ability to drive reductions at least-cost. Most of the complementary measures, meanwhile, dictate from where reductions will come without changing the total amount of GHG emissions allowed under the cap. By mandating how GHG emission reductions will be achieved, Californians are forced to finance less economically-efficient solutions without being provided a clear picture of the costs and benefits of a program that has no real impact on total GHG emissions. Other policy coordination measures could be implemented to ensure that certain inefficient impacts on California's cap-and-trade program are minimized.

Estimates from California and other jurisdictions elucidate how impacts of what are ostensibly "complementary mechanisms" can actually lead to higher overall program costs, inefficiencies along with other unintended consequences. These overlapping or duplicative climate measures that are hurting – or could potentially hurt – California's program objectives must be identified and remedied or avoided. Not only might they create inefficiencies, but they can actually lead to higher overall program costs and put unnecessary financial burdens on California business and consumers. A number of leading policy experts and academics have captured these risks and policy interactions, such as Harvard University and the Analysis Group.

3. TRANSPARENT & FREQUENT POLICY IMPACT ASSESSMENTS

Transparent and inclusive *ex-ante* and *ex-post* policy evaluations on cap-and-trade versus complementary mechanisms should be a significant priority to California policy-makers. Comparability across measures should not only include cost per tonne ($/tCO2e) impacts, but this **should be a key criterion or indicator to guide California's policy economic impact assessments and evaluations**.

IETA recommends ***ex-ante* assessment** regarding the design of various policies according to the following priority indicators:

- Is the policy a market instrument?
- Are the costs of the policy transparent?
- Are the impacts of the policy transparent in terms of greenhouse gas emission reductions?

IETA recommends priority considerations and indicators that should guide ***ex-post* assessments** to ensure thorough and defensible assessments of potential implications. Key items include:

- **Economic Efficiency:** Is the most cost-efficient abatement option being developed?
- **Environmental Outcome:** Are these additional policies being used to meet the specific environmental outcome? If so, are they conflicting with the environmental objective of California's greenhouse gas emission reductions, reflected by the state cap?
- **Direct or Indirect Impacts of Cap-and-Trade Program:** Do other policies directly impact the cap-and-trade program by encouraging emission reductions in sectors already covered by the market? Do these have an indirect effect whereby reductions occur as a result of these policies without this representing the core objective of such policies?
- **Harmonization vs. Distortion of Energy Market**: What are the consequences of these other policies on California's internal and regional energy markets?
- **Other Potential Implications for Consideration & Assessment:** Is the policy promoting specific technologies to the detriment of cost-effective alternatives? Is California's market being forced to adapt to a less efficient policy mechanism?

4. RECOMMENDATIONS TO ENSURE TRUE "COMPLEMENTARITY"

We understand that complementary mechanisms will continue to play a role in California's climate policy "tool-kit" to 2030 and beyond. IETA encourages ARB to consider additional design recommendations to ensure these measures are in fact "complementary", thereby mitigating the risk of cap-and-trade becoming a residual tool. A number of policy coordination measures, outlined below, could be employed by ARB to avoid inefficiencies and ensure California's market mechanism remains strong, stable and predictable.

Transparency

Across the "tool-kit" of California's complementary mechanisms we recommend that careful consideration of policy-specific costs/environmental impacts be analyzed and communicated to the market. Regulators must ensure open and transparent impact assessments – including cost impacts - for any new or amended climate and energy measure. Greater transparency on the effects of regulatory measures will prove critical in terms of costs and reductions. Chosen options should not only be properly evaluated and designed in a way that is compatible with cap-and-trade market design, but also in a manner that is equally as transparent in **terms of costs, reductions and objectives.** Further, ensuring adequate monitoring of impacts from other policies will support a stable carbon price signal and greatly help predictability and comparability of various policies with similar objectives.

Fulsome Review Processes on Cost-Effectiveness

In light of California's ambitious 2030 targets, it is imperative that ARB and other agencies engage in regular, ongoing assessments as to whether the state's current path is best positioned to successfully deliver GHG reductions at least possible cost. Regular market reviews by state agencies should incorporate **policy interplay transparency**. In these reviews, updated forecasts and evaluations on the delivery of major policies both complementing and overlapping California's cap-and-trade program should clearly be identified.

In light of evolving state, regional and federal circumstances and trends, we recommend a full review with consultation of all policies that actually (or attempt to) realize reductions to 2030. Such regular assessment is necessary to ensure that the cap-and-trade program is a strong market instrument and that California is traveling the most cost-efficient and environmentally effective path to de-carbonization.

These transparent efforts should also demonstrate that non-market policies achieve their cost and environmental goals more successfully than what cap-and-trade and offset programs could deliver on their own merits.

Exclusion of Traded Sectors from "Complementary Mechanisms"

Sectors covered under California's linked cap-and-trade program already have an obligation to reduce GHG emissions. Adding further obligations by including these installations in the scope of various "complementary" – likely prescriptive – measures undeniably overlap with the cap-and-trade program. This situation also mitigates the power of the market while unnecessarily shaving demand for lower cost reductions and flexibility options. Depending on sector coverage and design, the layering-on of additional compliance obligations also has the potential to heighten costs and adversely impact opportunities to link with other jurisdictions. The overlap of already covered sectors/entities and emissions is economically and bureaucratically inefficient, and the move ultimately constitutes double regulation.

In Conclusion

We appreciate this opportunity to comment on ARB's 2030 Scoping Plan and Economic Modeling efforts. While moving forward with Scoping Plan work and stakeholder engagement in 2016-2017, IETA looks forward to closely engaging with Staff. If you have questions about IETA's comments, please contact Katie Sullivan at sullivan@ieta.org.

Sincerely,

Dirk Forrister
IETA President and CEO

ABOUT IETA. *For over 15 years, IETA has been the leading global voice of the business community on the design, implementation and evaluation of flexible mechanisms to harness the power of markets and private sector innovation to tackle climate change. Worldwide, our team and multi-sector membership work closely with governments (sub-national, national, and UN levels), multi-laterals, leading academics, and environmental groups to inform the design, expansion and overall functionality of these critical mechanisms. Our 140+ member companies include some of North America's - and the world's – largest power, industrial, and financial corporations, including leaders in oil & gas, electricity, manufacturing, mining, chemicals, and paper. Members also include leading firms in: data assurance and certification; brokering, trading and finance; engineering and clean technology; offset project development, aggregation, registries; and legal and advisory services. www.ieta.org*