October 22, 2018

Rajinder Sahota – Assistant Division Chief, Industrial Strategies Division
Jason Gray – Branch Chief, Cap-and-Trade Program
California Air Resources Board
1001 I Street
Sacramento, California 95814

RE: CMTA COMMENTS ON THE PROPOSED AMENDMENTS TO THE CALIFORNIA CAP ON GREENHOUSE GAS EMISSIONS AND MARKET-BASED COMPLIANCE MECHANISMS REGULATION (45-DAY AMENDMENTS)

Dear Ms. Sahota and Mr. Gray,

The California Manufacturers & Technology Association (CMTA) appreciates the opportunity to comment on the 45-day amendments proposed for the Cap-and-Trade program and looks forward to continuing work with the California Air Resources Board (CARB) on making adjustments to the program that ensuring we reach our climate goals while meeting the equally important economic protections originally asserted under AB 32 (2006) and reaffirmed under AB 398 (2017).

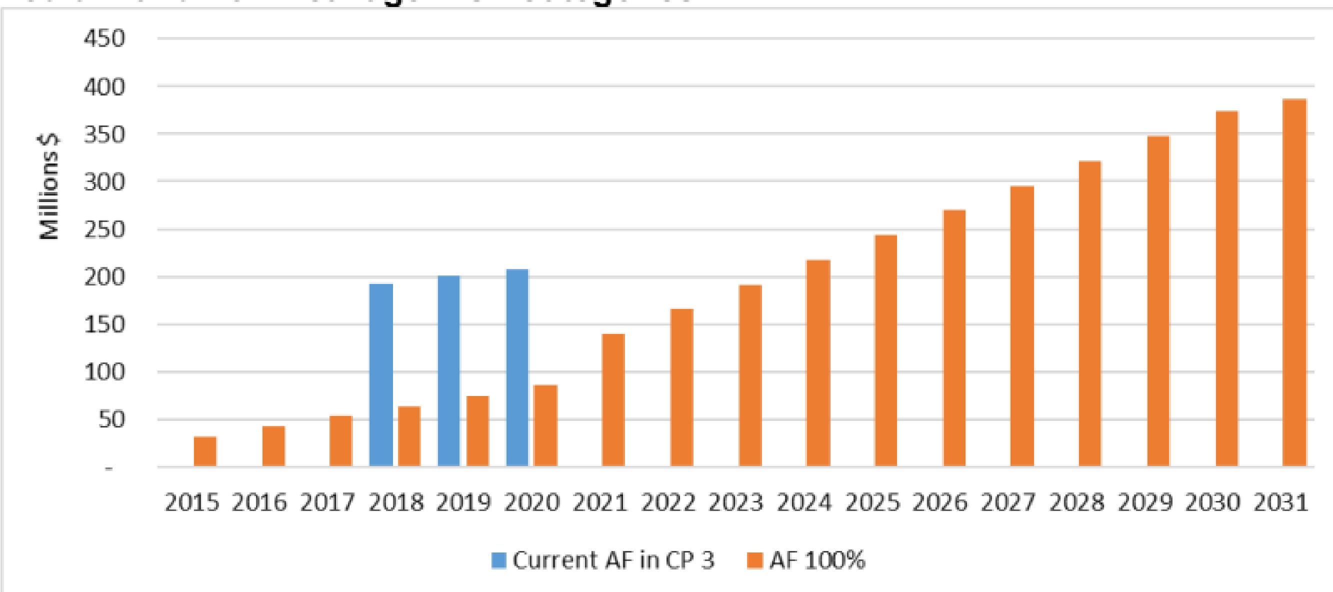
CMTA continues to support a well-designed cap-and-trade program as the most cost-effective method for achieving carbon emissions reductions while limiting the impact to California's economy. Enabling companies to choose the most economical method for reducing emissions and maintaining a stable market will help limit the negative effects of imposing regulatory compliance costs on California manufacturers and other obligated parties while no other competitive jurisdictions impose similar costs on their manufacturers.

CMTA works to improve and enhance a strong business climate for California's 30,000 manufacturing, processing and technology companies. Since 1918, CMTA has worked with state government to develop balanced laws, effective regulations and sound public policies to stimulate economic growth and create new jobs while safeguarding the state's environmental resources. CMTA represents an economic sector that generates more than $230 billion every year and employs more than 1.2 million Californians.

As such, CMTA's members and the manufacturing and technology sectors carry a strong interest in the implementation of the changes ordered under AB 398 along with additional direction provided by the CARB board members in Resolution 17-21. The central message of these comments, as with our comments at several earlier workshops on this regulation, remains "cost containment". Cost containment includes continuation of assistance factors (AFs) at 100 percent during Compliance Period 3 (CP3) and post-2020 period, a reasonable price ceiling paired with appropriately placed 'speed bumps' and maintenance of available allowances in the market.

CMTA Supports Proposed Industry Assistance Factor (AF) Changes
In order to minimize emissions leakage, it is important that the AFs continue at 100 percent through the Third Compliance Period (CP3) and the post-2020 period, as directed by Resolution 17-21 and AB 398 respectively. ARB staff analysis shows that failure to continue the AFs at this level will lead to an unnecessary increase in allowance prices that drive up industry compliance costs as shown in Figure H from the Staff Report (below).

Figure H. Estimated Total Compliance Cost for Industrial Covered Entities in Medium and Low Leakage Risk Categories*



* Compliance costs

Two fundamental points also argue for maintaining AFs at 100 percent for all sectors in CP3:

- <u>100 percent AFs do not translate to 100 percent compliance relief.</u> Under current and proposed regulations California industry will continue to see a reduction in allowances annually to the point that most sectors will receive only 50 percent of their compliance obligation in 2030.
- <u>California remains an outlier.</u> While many have made commitments to reduce carbon emissions, this state remains one of few jurisdictions to impose a program to reduce carbon on industry.

<u>Clear Board direction, CARB staff analysis of compliance costs and the lack of broader carbon market participation in competitive jurisdictions constitute sufficient evidence for the continuation of 100 percent AFs in CP3.</u> Additionally, the smooth transition into the post-2020 period, as mandated by AB 398 argues for maintaining AFs in CP3. **Therefore, we respectfully request that CARB approve the continuation of the CP3 AFs at 100 percent in order to protect against greater emissions leakage related to unnecessarily high compliance costs.**

A Reasonable Price Ceiling and Speed Bumps Provide Essential Cost Containment
CMTA believes that the 45-day amendments do not sufficiently address the intent of AB 398 in calling for a price ceiling and price containment points (aka 'speed bumps') that protect consumers and

business from excessive costs should emission allowance process suddenly skyrocket. Simple changes to these proposals can significantly improve the cost containment function.

Specifically, the price ceiling escalator of five percent plus the Consumer Price Index (CPI) unnecessarily increases the price ceiling in a manner that is not consistent with the protections required, nor is it necessary to prevent a convergence of the price floor and ceiling into a de facto carbon tax. Current regulations have a single reserve price (a soft price ceiling) of $58.65 above the floor price resulting in a consistent gap between those two price levels and providing space for the allowance auction and secondary market to work. CMTA recommends that CARB eliminate the escalator on the price ceiling and continue the existing model by setting the price ceiling at a flat rate of above the floor price.

Additionally, CMTA recommend that the speed bumps be moved from the proposed to one-half and three-quarters levels down to the one-third and two-thirds levels in order to provide an earlier signal and check on rapidly increasing prices.

Removing Unused Allowances is Unnecessary to Reach Carbon Reduction Goal
The current availability of unused allowances is an indication that the Cap-and-Trade program is working as currently designed. Maintaining the current allowance budget provides additional protection against the prospect of greater artificial scarcity beyond what is already built into the program. As a result, keeping those allowances in the market limits artificial price spikes and supports compliance with carbon reduction goals.

Further any attempt to shave allowances from the 2026-2030 allowance budgets to reflect the change in the offset limits would represent a mostly punitive measure that only serves to increase the allowance price for obligated parties and does not support a sustainable program. It is particularly onerous because the cap (annual allowance budget) is already extremely low in this period such that there may be an allowance supply shortage under the current cap budgets.

CMTA appreciates the continued work of CARB to meet our carbon emission reduction goals and looks forward to your response to the comments above.

Sincerely,

Michael Shaw
Vice President, Government Relations
California Manufacturers & Technology Association (CMTA)