

December 16, 2016

Ms. Rajinder Sahota
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Comments on 2030 Scoping Plan Update - Discussion Draft

Thank you for providing the opportunity to comment on the December 2, 2016 “Discussion Draft” of the 2030 Target Scoping Plan Update. We appreciate the efforts of ARB staff in analyzing multiple alternative scenarios in response to recently passed legislation to update the existing comprehensive Plan to meet the State’s ambitious climate goals.

Our comments focus on how cap and trade is the best policy option for meeting the high-level criteria ARB identified on pages 98 and 99 of the Discussion Draft. Additionally, The Climate Trust recommends the final scoping plan conduct a comparative analysis of how different policy scenarios best meet or do not meet these criteria as a way to illustrate the pros and cons of the three scenarios being considered.

[Cap and Trade is essential to ensure the 2030 target is met](#)

Cap and trade is one of several policy mechanisms adopted by California under AB 32, but it plays an important role in achieving the State’s climate goals. By setting an emissions ceiling, cap and trade acts as an “elastic band” that achieves whatever remaining reductions are necessary to meet an emissions reductions target that cannot be met by the State’s complementary climate policies. This is an important role given that uncertainty will always exist to the extent complementary policies such as the Renewable Portfolio and Low Carbon Fuel Standard among others will reduce targeted emissions. Unlike command and control and a carbon tax, cap and trade can effectively counteract the uncertainty around the extent to which different policies produce emission reductions. Therefore, it is important to note in the scoping plan that a suite of policies that doesn’t include cap and trade cannot meet SB 32’s objective of ensuring the 2030 target is met.



Cap and Trade demonstrates global leadership and is crucial to encourage reductions beyond the state's borders

The Climate Trust encourages ARB to add a criterion under Section III F that explicitly calls out the extent to which Scoping Plan Scenarios contribute to California's role as "a leading global climate diplomat" in supporting the adoption of greenhouse gas reduction programs in other jurisdictions.

Greenhouse gas emissions are a globally uniform pollutant and one ton of emissions has an impact on California's vulnerability to a changing climate regardless of where in the world where it is emitted.

Cap and trade is vital in achieving this diplomacy role in several ways. The use of market linkages brings other jurisdictions into the fold creating a more robust market that enables California to meet its emission reduction goals at a potentially lower compliance cost.

Additionally, the inclusion of offsets in a cap and trade program is important in achieving the goal of enhancing the exportability of greenhouse gas reduction programs. Offsets demonstrate the role sources outside of the cap and sinks in jurisdictions outside of California can play in promoting market linkages. In our nineteen year experience we have found that once offset projects generate revenues, interest from peers, whether dairy owners or forestland owners grows, and as this interest grows states start to take notice.

There are several entities in our home state of Oregon that have pursued offset projects using ARB's protocols. The experience of these entities has been valuable to point to as Oregon is developing cap and trade legislation expected to be introduced in the State Senate in the 2017 legislative session. Given our experience discussing cap and trade in Oregon, we believe offsets will continue to have an important role in encouraging market linkages with additional jurisdictions throughout North America in the coming years.

Beyond jurisdictional market linkages, offsets attract capital from private sources to help develop and implement offset projects. This is important to note as these private sources of capital help mitigate the costs of meeting California's climate policy goals, which are largely borne by the State's residents and businesses. They can also contribute to an inflow of capital from outside of California to inside the State. For example, Climate Trust Capital, an Oregon-based impact fund subsidiary of The Climate Trust, is considering investing in several digester projects in California that would generate offsets to the late 2020s.

Conversely, carbon taxes and command and control do not offer a comparable level of exportability. They support an in-state approach that could lead to a patchwork of differing policies that do not ultimately reduce emissions the extent a linked market would. They also do not encourage capital in-flows to California because there would not be a market to finance California-based offset projects.

Cap and Trade benefits disadvantaged communities

As is well documented, proceeds from auctioning allowances issued under the cap and trade program benefit disadvantaged communities by providing revenues to directly fund initiatives in those communities. However, beyond auction proceeds, the inclusion of offsets also has benefits for disadvantaged communities in two notable ways.

Low-income residents spend a disproportionate amount of their income on energy. A cap and trade program with auctioned allowances helps to fund initiatives that can reduce the extent to which low income residents spend money on their energy needs. The inclusion of offsets also lowers compliance costs, which reduces the extent to which energy cost increases are passed on to low income consumers as a result of California's climate policies.¹

Secondly, disadvantaged and low income communities in rural areas can reap the public health and economic benefits under a cap and trade program that they would not be able to access under a command and control or carbon tax regime. This is because rural areas are where greenhouse gas sinks and sources outside of the cap are often located. The Pacific Rim dairy digester project is currently registered as a compliance offset project. This project is located in Corcoran, California, which has a poverty rate that is twice that of the state average.² One of the benefits of digesters is that they eliminate ammonia emissions associated with manure management. Digesters also eliminate pathogens in manure, which is then spread on the fields surrounding the dairies. Digesters therefore improve respiratory conditions, water quality, and human health as elevated levels of ammonia and pathogens in water cause hypertrophy and can inhibit fetal development.

Offsets are also a proven opportunity for native tribes that own forestland to take advantage of cap and trade. Many native tribes have a desire to protect and conserve the forestland they own, but face pressure to harvest it to alleviate

¹http://www.edf.org/sites/default/files/EDF%20AB%2032offsetsmodelingmemo%20final2_updat ed_3Jan2012_v2.pdf

² http://www.civildashboards.com/city/corcoran-ca-16000US0616224/percent_living_in_poverty, accessed on December 15, 2016.

relatively high poverty levels. In California, the Yurok tribe is a notable example of a disadvantaged community generating compliance offsets.

Beyond California, the White Apache Mountain tribe in Arizona has generated offsets and several native corporations in Alaska are developing forestry projects for the California compliance market. These activities not only generate tens of millions of emission reductions, but also generate revenue for disadvantaged communities, while enhancing their forest properties as opposed to sacrificing the cultural and conservation benefits of intact forestland.

Cap and Trade provides compliance flexibility

Of the three scenarios, cap and trade is the most effective at providing compliance flexibility and adhering to the objectives of AB 32 and AB 197 to encourage cost effective reductions. Command and control is the antithesis of flexibility as facilities are directed to meet a source specific reduction target regardless of costs and regardless of whether other sources could undertake steeper reductions at a lesser cost. This runs counter to the mandates of AB 32 and AB 197. A static carbon tax runs the risk of further depressing the economy if it is weak and missing emission reduction targets if it's strong. It would be difficult--likely impossible--for a carbon tax to provide comparable flexibility as it would need to be regularly adjusted in a way that is transparent to regulated companies.

The Climate Trust also believes that the scoping plan scenarios should not only consider a reduction in the offset ceiling usage, but also a higher ceiling than the current 8%. This is because leaving it at the current level runs counter to a goal in AB 197 of encouraging direct reductions other than large stationary sources and mobile sources. Left unchanged, the magnitude of offset use will decline over time as the cap tightens. Because the offset limit is calculated as a percentage of each entity's compliance obligations, as the cap lowers and compliance obligations are reduced, offsets use will also be reduced proportionally --with no modification to the 8% offset limit.

Nonetheless, as California enters this next phase of encouraging emission reductions, The Climate Trust recommends the scenario analysis consider the benefits and trade-offs of raising the offset ceiling to 12% in a post-2020 cap and trade market. Examining three ceilings (the current 8%, a 4% ceiling, and a 12% ceiling) would provide the robust analysis necessary to consider the cost effectiveness of different cap and trade program designs.

Recommendations

The Climate Trust appreciates the opportunity to provide ARB feedback on the Discussion Draft of the 2030 Target Scoping Plan. In summary our recommendations are:

1. Elevate the use of a common set of criteria for comparing the different scoping scenarios. This approach will ensure there is transparency in understanding the key goals of California's climate policies and what the trade-offs are of the different scenarios in meeting the state's 2030 target. Chief among these criteria listed on page 98-99 is the extent and certainty to which the different scenarios meet the 2030 reduction target.
2. Emphasize the role of uncertainty inherent in the policy analysis. Forecasting the extent to which different policy mechanisms will result in emission reductions is an inherently complex exercise and it is impossible to anticipate how the economy might shift or what innovations may arise that could increase or decrease the effectiveness of any given element of policy. Because of this inherent uncertainty it is important to evaluate how effective the different scenarios will be in mitigating the overall uncertainty to ensure California's 2030 target is met.
3. Emphasize the importance of program exportability as a model for global leadership. The policy scenario analysis should consider how different policy scenarios might encourage or dissuade other jurisdictions from adopting climate policies. Promoting market linkages and opportunities for participation beyond California's borders is important because mitigating the disastrous effects of climate change on California will require a concerted global effort. Alternatively, consider the consequences of policy scenarios that reduce opportunities for multi-jurisdictional engagement.
4. Consider how policies benefit disadvantaged communities in rural areas. Particularly, how the different scenarios promote investment in offset emission reduction projects in rural parts of the state(the country).
5. Conduct a robust cost-effectiveness analysis. If the scoping plan will examine a post-2020 4% limit, ARB should also consider a 12% limit to better understand the cost-effective implications of the different policy scenarios under consideration.



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If you have questions or require more information, please contact Sheldon Zakreski, Director of Carbon Compliance at szakreski@climatetrust.org.

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