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California Air Resources Board, 1001 I Street, Sacramento, California 95814
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IETA COMMENTS ON CALIFORNIA AIR RESOURCES BOARD (ARB) WORKSHOP: POST-2020 EMISSIONS CAPS AND ALLOWANCE ALLOCATION

The **International Emissions Trading Association** (IETA) is pleased to share comments on ARB's 29 March Workshop on potential amendments to California's Cap-and-Trade Regulation related to post-2020 emissions caps and allowance allocation.

1. POST-2020 EMISSIONS CAPS

Setting an appropriate "cap" that specifies a fixed, declining amount of emissions allowable per year is critical to achieving cap-and-trade program success and reaching California's climate targets at least-cost.

IETA recommends taking the following questions into consideration to help guide California's cap-setting decision efforts. Such criteria can help officials evaluate the robustness and efficacy of a cap.

- Does the cap design drive a meaningful price signal based on demand and supply balances?
- Does the cap design facilitate trading?
- Does the cap design promote market liquidity?
- Does the cap design follow the principle of graduated scarcity creation to encourage innovation?
- Will the pace of graduated cap-tightening produce a balanced market over time?

IETA supports the current thinking outlined on Slide 6 of ARB's workshop presentation. Maintaining economy-wide coverage sources not only adds to the credibility of the program, but also maximizes cap-and-trade's ability to help with price discovery and provide opportunities for trade. Further, updating covered gases to the IPCC's Fourth Assessment Report of Global Warming Potentials is demonstrative of California's laudable efforts to continuously review and improve-upon its existing market-based system.

IETA strongly supports ARB's commitment to prioritize harmonizing the Cap-and-Trade Regulation amendment process with linked partner jurisdictions. The benefits of strong linking partnerships are clear: the bigger and broader the market, the wider the range of abatement opportunities and improved efficiencies, driving-down program costs while driving-up clean projects, finance and investment. This consideration is especially important for businesses facing regulatory exposure across multiple jurisdictions. California should leverage its cap-and-trade experience to ensure that program rules and processes with partner jurisdictions are complementary and readily adaptable to rapidly-changing policy landscapes. This is particularly important, and with near-term relevance, when looking at Ontario.

Successful cap-and-trade design must include the creation of scarcity of allowances over time and in a predictable manner. In support of this basic tenet, we believe that **Option 2 (Slide 8) provides the more effective pathway to meet California's climate target.** This option aligns post-2020 caps with actual 2020 emissions levels, reinforcing the program's intent to provide a clear, stable path for compliance planning and clean investment. In contrast, Option 1 carries more risk of pricing volatility due to unintended market behavior stemming from long-term fundamental oversupply. This could potentially result in perverse effects on market behavior, such as decreased auction participation and secondary market illiquidity.

The successful transition to a low-carbon economy requires a broad, clear, and sustained price signal during a clearly-defined timetable. As such, the APCR should reflect an appropriate price signal to manage this transition while curbing potential upward price volatility spikes that would predominantly be borne by consumers without incrementally incenting additional reductions. With respect to the questions posed on Slide 9, we believe that implementing **Option 2 should direct allowances equal to the "adjustment" into a post-2020 Allowance Price Containment Reserve (APCR) –** noting that this *should not only occur for the initial (1st) adjustment year, but rather the cumulative adjustments over the 2021-2030 period*.

2. ALLOWANCE ALLOCATION

IETA supports an evidence-based, transparent and defensible approach to address potential competitiveness and "carbon leakage" concerns under cap-and-trade. Such provisions should be transitional in nature, reflect developments in climate policies in other jurisdictions, and be open to regular "leakage assessments" and potential modifications. California's post-2020 rules should also account for the likely adoption of carbon pricing strategies by other jurisdictions, either as linked partners or through some other mechanism. Further information and assessments of various jurisdictional allocation approaches can be found in IETA's **White Paper on Competitiveness & Leakage Avoidance.**

IETA appreciates this opportunity to record our comments. We remain committed to supporting the successful growth of a vibrant, linkable market to help achieve California's near and longer-term climate goals. If you have questions, please contact Katie Sullivan (sullivan@ieta.org).

Sincerely,

Dirk Forrister
IETA President and CEO