September 16, 2016

The Honorable Mary Nichols
Chair, California Air Resources Board
1001 I Street
Sacramento, CA 95814

SUBJECT: COMMENTS ON THE AMENDMENTS TO THE CALIFORNIA CAP ON GREENHOUSE GAS EMISSIONS AND MARKET-BASED COMPLIANCE MECHANISMS REGULATION

Dear Chairwoman Nichols:

The California Chamber of Commerce (CalChamber) appreciates the opportunity to comment on the California Air Resources Board (CARB) Cap-and-Trade package released August 2, 2016.

CalChamber is the largest broad-based business advocate in the state, representing the interests of over 13,000 California businesses, both large and small. Many of CalChamber's larger members are directly covered by the cap-and-trade regulation, while other smaller members experience the indirect impacts in the form of increased energy costs passed down from upstream fuel and energy providers.

CalChamber strives to remain a productive stakeholder throughout the AB 32 implementation process as well as in the future with post-2020 climate policies, in order to advance the greenhouse gas (GHG) emission reduction goals in the most cost-effective manner while protecting California businesses and allowing for economic growth across all sectors of the economy. We have long maintained that if designed properly, a market-based mechanism has the ability to garner significant GHG reductions in a cost-effective manner.

A cap-and-trade program will be a more cost-effective approach than command and control and less likely to discriminate unfairly against particular industrial sectors. California's greenhouse gas reduction laws post 2020 will be unworkable without a well-designed market mechanism. The command and control measures that would be used to achieve a 2030 GHG emission reduction target of 40% below 1990 levels will be harsh and severely impact the quality of life of Californians. This will require cutting per capita GHG emissions nearly in half over ten years, after already achieving the easiest and most cost effective reductions.

Governor Brown has noted that an extension of cap-and-trade post 2020 is unfinished business. In order for there to be an extension, there needs to be legislative authority. A market mechanism can be adopted with a simple majority vote of the California Legislature, however, if the CARB is looking for a revenue stream beyond the cost of administering the program, this will require a supermajority in order to approve the tax.

Our comments below include concerns for some design flaws and recommendations to modify elements to ensure an operable, cost-effective program.

TRADE EXPOSURE PROTECTION IS NECESSARY

The risk of leakage due to costs incurred by California industry, but not their competitors is high. In the last round of amendments to the Cap and Trade regulation (2013-2014), CARB extended 100% of the assistance factor into the second compliance period. As it was in the 2013-2014 timeframe, California's market remains largely isolated from other markets where more cost-effective reductions exist.

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Accordingly, an extension of 100% industry assistance is still warranted until such time that leakage risk is eliminated, both to maintain the environmental integrity of the program and to protect California jobs and the state economy.

Industrial assistance is critical to maintaining the environmental integrity of the cap-and-trade program. In addition, protecting the jobs and economy is essential. While additional time is appreciated to discuss alternative methodologies for trade exposure, 15-day comment periods will not allow sufficient time for affected stakeholders to assess the impacts of the new assistance factors.

OFFSETS ARE ESSENTIAL
CalChamber maintains its position that a robust offset program is a key cost containment mechanism. A robust supply of offsets are required in order to reduce program costs. Therefore, a consideration of offset protocols is encouraged. Expanding the allowable use of offsets is a sound policy choice. Numerous economic studies have shown, including CARB's own analysis, that offsets are the best market-based alternative to reduce costs and limit leakage. Expanded use of offsets is consistent with CARB's statutory obligation to achieve the maximum technologically feasible and cost effective GHG emissions reductions. Offsets are a proven and cost-effective means of meeting AB 32 compliance obligations.

MARKET REFORMS ARE NECESSARY
In order to ensure market stability and cost-containment, there need to be reforms made to the Allowance Price Containment Reserve (APCR). Post-2020 emissions reductions will constrain the market as the cap declines at a more rapid rate. Price containment in the APCR is necessary if the reserve is to be a true cost-containment mechanism. We recommend that there be further consultation with market experts in order to make necessary reforms to ensure the stability of the market and maximize cost-containment.

LACK OF POST-2020 DESIGN DETIALS
There is a lack of critical detail surrounding several of the 2030 design elements in the proposed regulation. Given the lack of detail, this limits the input of stakeholders and also the scope of what the CARB can propose in subsequent 15-day packages.

LACK OF AUTHORITY FOR POST-2030 ALLOWANCE BUDGETS
Despite the recent passage of SB 32 (Pavley), and beyond the lack of authority for a cap-and-trade program 2020, there is certainly no authorization to establish a GHG emission reduction limit for 2050. We recommend that ARB remove post-2030 caps from this rulemaking.

We appreciate your consideration and opportunity to comment on the AB 32 Cap-and-Trade Regulation Amendments. We look forward to working with the CARB throughout the process as you consider the proposed modifications. As long maintained by CalChamber, it is critical to design a cost-effective program that reduces GHG emissions while allowing for continued economic growth.

Should you have any questions, please feel free to contact me via email (amy.mmagu@calchamber.com) or at (916) 444-6670.

Sincerely,

Amy Mmagu
Policy Advocate