



California Council for Environmental and Economic Balance

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May 8, 2024

Dr. Mark Sippola
Branch Chief, Cap-and-Trade Program
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Comments on the Cap-and-Trade Program Workshop, April 23, 2024

Dear Dr. Sippola,

On behalf of the California Council for Environmental & Economic Balance (CCEEB), we write to provide comments on the potential changes to California's Cap-and-Trade (C&T) Program. CCEEB is a coalition of business, labor, and public leaders that works together to advance strategies to achieve a sound economy and a healthy environment. Founded in 1973, CCEEB is a non-profit and non-partisan organization.

We appreciate the thorough presentation at the workshop. The C&T Program is a cornerstone of California's strategy to reduce greenhouse gas (GHG) emissions and can be a workhorse that helps drive private sector investment in abatement strategies while protecting consumers and businesses from undue economic impacts and leakage. CCEEB believes CARB is focusing on the appropriate initial concepts for this potential update to the program.

As California endeavors to achieve carbon neutrality by 2045 with an 85% direct emission reduction target, we must carefully balance ambition with affordability. To this end, the program design and cost-containment mechanisms should maintain a valuable role in achieving our goals while protecting jobs and the economy. Cap-and-Trade is the most cost-effective and flexible mechanism in California's suite of climate change policies. Maintaining the dynamic nature of this program to allow innovation while sending a steady and predictable carbon price is important to driving cost-effective abatement and mitigation strategies for compliance entities.

However, we must look at the C&T program holistically and fully understand the impacts each design element will have on the others. With the intent to increase the stringency of the program to reflect AB 1279 and the 2022 Scoping Plan, we know that the ambition of the program will also drive allowance value. How and where allowances are removed will impact liquidity and functionality of the program. California's benefit is the program functions well today and has matured with strong secondary market activity. Protecting this success will be challenging with the increased pace of reductions required to achieve carbon neutrality.

Allowance Budget Discontinuity

CCEEB believes we should avoid the discontinuity. However, a future rulemaking after some experience with increasing the ambition of the program could inform the best methodology and utilization of the allowance budgets between 2030 and 2031. Additionally, the potential for legislative reauthorization between now and 2028 will also have unpredictable implications. The learning in the first compliance period will certainly provide more insights into the use of the potential allowances than we have today and therefore we also suggest leaving this as an open item to revisit later.

Holding Limits

CCEEB suggests reviewing holding limits within the context of the proposed reductions to the annual allowance budgets and include this review in a future workshop that delves deeper into the allowance budget scenarios as changes to the holding limits may result in non-ideal market outcomes. While we have an inclination that increasing holding limits for compliance entities would prevent unnecessary volatility, CARBs additional perspective on this topic will add value to the shaping of the amendments. that provide a deeper understanding of the annual allowance budgets, allowance allocations for utilities and energy intensive trade exposed industries, changes to the allowance price containment reserve, and which buckets the proposed allowances to be removed will come from will inform additional thinking on this topic.

Compliance Period Alignment

With the increased ambition of the program, annual surrender of allowances should more than cover the necessary emissions reductions to achieve California's statutory goals set forth in SB 32 (Pavley). As such, the need to change the triennial compliance period seems unnecessary. However, consideration of our trading partner and potential linkage with Washington and New York raises the question. That said, even if compliance periods aligned perfectly with the target years the verified data tends to lag by more than a year, so we are unsure there is a material benefit to this change.

However, if the main objective is supporting linked jurisdictions, we should collaborate on a transition to an appropriate interval with subsequent changes to annual surrender and other specific details that should be fully accounted for in the transition. As California's program is maturing with sufficient volumes flowing in the secondary markets to support longer compliance periods, the potential to transition to 5-year compliance periods is reasonable and would help align with the 2030, 2035, 2040, and 2045 target years.

Offsets

Offsets provide a critical cost containment function to the C&T program. Cost containment improves environmental outcomes and helps protect Californian businesses and residents, while helping to ensure the success of the State's goals. The continued utilization and improvement of offset protocols will help prevent jobs and emissions leakage from businesses leaving California because of unnecessarily high compliance costs – while providing state, national, and international climate benefits. CCEEB supports streamlining offset protocol compliance to facilitate continued supply at a pace that keeps up with demand and increase offset usage limits.

Conclusion

We appreciate the workshop discussion and will continue to collaborate with our members to better understand the impact of the suggested changes and questions CARB has raised. California's leadership through the Cap-and-Trade program and the program benefits, require a deliberative and intentional approach to these amendments with specific consideration to the 2045 carbon neutrality goal, the cap,

leakage, and cost-containment. Evaluation of how this program should be tailored to meet our near-term and long-term goals brings to the forefront the need for certainty that the program will continue beyond 2030. Additionally, there is a fundamental requirement that California's climate programs be cost-effective and technologically feasible to avoid undue impacts to households and businesses.

Thank you for your consideration of our comments. We look forward to discussing them or answering any questions you may have at your convenience. Please contact me or Mikhael Skvarla, CCEEB's Climate Change Project Manager, should you have any questions or comments.

Sincerely,

A handwritten signature in black ink that reads "Tim Carmichael". The signature is written in a cursive style with a large, looping initial "T".

Tim Carmichael
President/CEO