



California Council for Environmental and Economic Balance

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June 21, 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, May 31, 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.

Overarching and Outstanding Issues

CCEEB supports a well-designed C&T as the most economically efficient way to reduce emissions in pursuit of California's carbon neutrality goal. We urge CARB to push forward the amendments process in a timely manner. Given the short timeline between now and 2030 and the substantial increase in stringency, it is important to have the amendments in place by 2025. However, we still need insights into how the culmination of workshops, modeling, and totality of potential regulatory changes, like how a combined liquid fuel benchmark will maintain a consistent treatment for existing and new liquid fuel producers, fit together before an official draft of the regulation is released. As CARB has warned the legislature and other stakeholders in the past, we cannot look at components of C&T without understanding how they impact the whole market and program. To that end, we urge an additional workshop that includes more insights on removals and how all the previous workshop topics come together. It will be helpful to disclose some draft proposals for regulatory language prior to that workshop and a 45-day notice.

Based on the Scoping Plan and previous workshops, CCEEB believes CARB should focus on the 48% scenario. However, liquidity of the market is going to be critical, therefore we support maintaining the volume of allowances currently available in price containment features such as the Allowance Price Containment Reserve. In further support of maintaining liquidity and cost-containment of the market CCEEB suggests that the Cap Adjustment Factor should aim to maximize free allowance distribution to continue to guard against leakage as ambition increases.

CARB has not addressed yet where the removals should come from, and that is a material question as it affects current planning. With the increased ambition of the program and statewide concerns about energy and industrial cost pressures, we believe the initial tranche of removals should be from the price ceiling as these allowances provide no cost containment function – they only provide time for CARB to

find reductions should the sale of price ceiling allowances to occur. Projections from UC Davis¹ and Resources for the Future² indicate that allowance value will continue to grow, supporting a large and sufficient Greenhouse Gas Reduction Fund (GGRF). As such, there is no significant need to consign more allowances to auction that can be better utilized for cost-containment and leakage protection.

Allowances allocated to electric distribution utilities on behalf of their ratepayers, support on-bill credits which help offset the significant infrastructure pressures on rates. Industrial sector allowances are a guard against leakage. Removals from ratepayer allocations will increase household and business energy costs. Removals from EITE will lead to higher costs for goods produced in the state, exposing our domestic manufacturing and agricultural sectors to competition from jurisdictions without carbon pricing. Importantly, CARB must address the need for new industrial sectors in California, like renewable fuel production, that require a benchmark to ensure cost protections are provided. There is no compliance cost to GGRF and that needs to be considered against the increasing compliance costs of entities within the C&T program. CCEEB believes that protecting Californians from the anticipated cost increases of increased climate ambition in the C&T has more intrinsic value to the State than consigning additional allowances to auction.

Additionally, we suggest additional discussions related to Corporate Association Groups (CAG) before inclusion into formal regulation proposals, as these changes could impact holding limits in a manner that could influence some near-term market reactions that will influence values and market conditions.

Conclusion

We appreciate the May 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. We believe that one more workshop is necessary to answer the remaining questions, disclose the additional modeling, and reveal the full picture of how these workshops come together is necessary prior to any official draft being released.

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 governmental relations representative at CA Lobby at (916) 203-0443 should you have any questions or comments.

Sincerely,



Tim Carmichael
President/CEO

¹ Bushnell, Allowance Supply and Demand in California's Cap-and-Trade Market: Initial Results

² Burtraw, Designing for Uncertainty: Amendments to California's Cap-and-Trade Market, Page 19

