Elevate Climate

Re: California Carbon Market Collaborative Comments on CARB's Informal Workshop on Potential Amendments to the Cap-and-Trade Program

The California Carbon Market Collaborative (CCMC) appreciates the opportunity to provide public comment on the California Air Resources Board's (CARB) informal workshop on potential amendments to the Cap-and-Trade (C&T) Program held on 23 April 2024. This comment letter should be read together with our letters submitted to CARB on 17 August 2023, 26 October 2023, 15 December 2023, and 08 May 2024.

Elevate Climate convenes the CCMC in support of the design and implementation of an ambitious and equitable California C&T Program through 2045 and beyond. The CCMC gathers a wide array of C&T stakeholders to deepen mutual understanding and undertake careful examination of key Program design features. Participants of the CCMC include Environmental Defense Fund, Liminality Capital LP, and Pacific Gas & Electric.

1. **The CCMC reiterates support for Proposed Scenario A in the Standardized Regulatory Impact Assessment to maximize emissions reductions from the cap and trade (C&T) program.**

The CCMC reiterates that the decision of which pools allowances are removed from has a critical impact on overall emissions reductions. In short, the Proposed Scenarios likely have *different* emissions outcomes rather than "similar emissions outcomes" as suggested in the Standardized Regulatory Impact Assessment (SRIA). Consistent with previous comment letters submitted on 26 October 2023 and 08 May 2024, the CCMC reiterates that removing allowances from the allocation and auction pools provides the greatest possible certainty of achieving emissions reductions in line with the 2022 Scoping Plan. This is consistent with Proposed Scenario A in the SRIA.

The CCMC notes that Proposed Scenarios B and C in the SRIA likely yield lower emissions reductions because they rely on removing allowances from the Allowance Price Containment Reserve (APCR) tiers. As explained in previous comment letters submitted on 26 October 2023 and 08 May 2024, removals from the APCR tiers only leads to emissions reductions if and when the containment reserve is triggered and subsequently exhausted. Yet the SRIA assumes APCR tiers are <u>not</u> exhausted, which directly contradicts the SRIA assertion of "similar emissions outcomes" across Proposed Scenarios A, B, and C.

A recently released report by the nonprofit nonpartisan think tank Resources for the Future (RFF) confirms and quantifies the CCMC's observations above. Specifically, Dr. Dallas Burtraw (Member of the Independent Emissions Markt Advisory Committee or "IEMAC") and his coauthors find that Proposed Scenario A "yields lower emissions than [Proposed Scenarios] B and C, especially if, as CARB's SRIA assumes and this report affirms, APCRs are never triggered" (Roy et al., 2024).[1]

[1] Roy, Nicholas, Domeshek, Maya and Dallas Burtraw, 2024. Addressing Uncertainty is Key to the Success of California's Cap-and-Trade Program.

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2. The CCMC supports a more proportional removal of allowances than proposed in CARB's "estimated distribution of allowance budgets" presented on Slide 19.

The estimated distribution of allowance budgets on Slide 19 includes a 40% reduction in allocations to electrical distribution utilities (EDUs) and a 7% expansion of allowances auctioned for the Greenhouse Gas Reduction Fund (GGRF). The CCMC supports a more proportional removal of allowances that includes fewer reductions to EDU allocations.

First, as CARB noted on Slide 18 at the 31 May 2024 workshop, "CARB allocates allowances to electrical distribution utilities (EDU) and natural gas suppliers (NGS) for the protection and benefit of ratepayers." The CCMC notes that disproportionate reductions to the utility sector will risk the performance of the California Climate Credit, which CARB has recognized as "an essential tool" to offset the costs of the C&T Program for ratepayers. Removing allowances from utility allocations will decrease the amount of revenue destined for ratepayers all else equal.

The IEMAC and the Environmental Justice Advisory Committee (EJAC) have also recognized the importance of the California Climate Credit, particularly for low-income households. At the 11 March 2024 JLCCCP hearing, Dr. Meredith Fowlie (Chair of IEMAC) expressed concern over increasing electricity costs and highlighted that low-income households spend a larger share of their income on utility bills than other income brackets.

Rather than decreasing ratepayer protection through removing allocated allowances, the CCMC believes there are opportunities to enhance the value of these allowances for the benefit of ratepayers by, for example, targeting low-income and/or disadvantaged ratepayers to further channel revenue toward progressive outcomes.

Second, the electricity sector has reduced their GHG emissions more than any other sector in response to the C&T program according to a recent peer-reviewed academic article. Specifically, writing in the journal *Energy Policy*, Lessmann and Kramer (2024)[2] find a 48 percent reduction in utility sector emissions primarily attributable to California's C&T program. Figure 1 below shows observed emissions in the electricity sector compared to a counterfactual synthetic control as reported by Lessman and Kramer (2024). The CCMC views it as inequitable to remove the most allowances from the sector that has reduced the most emissions in response to the C&T program. Allowance removals should not punish good actors.

[2] Lessmann, Christian and Niklas Kramer. 2024. "The Effect of Cap-and-Trade on Sectoral Emissions: Evidence from California". *Energy Policy*.

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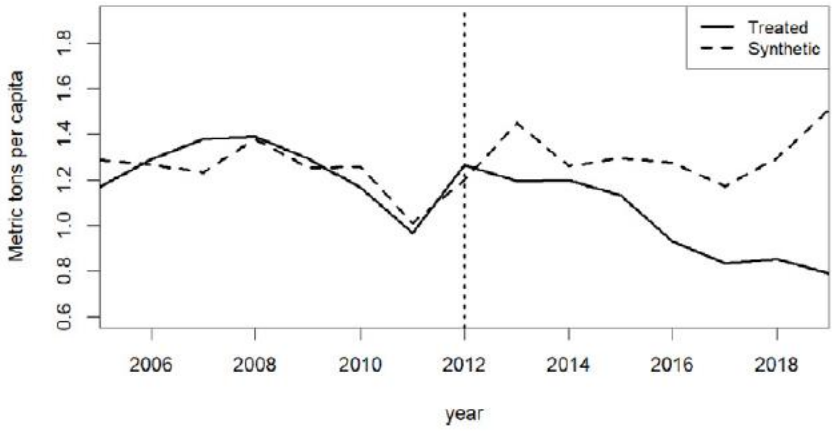
Figure 1
CO2 Emissions in the Electricity Sector 2005-2019: California versus Synthetic California
Source: Lessmann and Kramer (2024)



3. The CCMC supports exploring alternative pathways for increasing GGRF revenues.

The CCMC views increasing the number of auctioned allowances (as illustrated on Slide 19) as not strictly necessary because revenues will increase in any case. The aforementioned Resources for the Future report explains that "rising allowance prices triggered by the tighter [allowance] budget mean that the GGRF will receive more allowance value than in the current [allowance] budget, even if its share of the value falls relative to the share directed to free allocation" (Roy et al., 2024). For example, over the 2025 to 2030 timeframe, GGRF revenues double from 6 billion to nearly 12 billion under Proposed Scenario A, even if allowance removals are taken *entirely* from the auctioned pool of allowances. As mentioned in Section 1, Proposed Scenario A would also provide the greatest possible certainty of achieving emissions reductions in line with the 2022 Scoping Plan.

We encourage CARB to explore two alternatives that could and/or would raise GGRF revenues without necessarily increasing the number of auctioned allowances. First, choosing Scenario A will lead to further emissions reductions and greater GGRF revenues rather than choosing Scenarios B or C. Second, the introduction of an emissions containment reserve (ECR) would "reduce[] the number of emissions allowances sold at low prices, can make the market more robust in the face of uncertainty, ensure greater emissions reductions, and increase revenues to the Greenhouse Gas Reduction Fund" (Roy et al., 2024). In previous comment letters (17 August 2023 and 26 October 2023), the CCMC has described the ECR as an "insurance policy" against low prices and has argued that an ECR is a prudent approach to address the "difficulties in estimating the performance of regulatory policies nearly a decade into the future."

4. The CCMC emphasizes the importance of regulatory certainty.

The CCMC looks forward to continue engaging in the C&T rulemaking process and emphasizes the importance of regulatory certainty and the rulemaking timing for a wide range of stakeholders.

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Sincerely,

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