



August 15, 2023

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, July 27, 2023](#)**

Dear Dr. Sippola,

The [Climate Reality Project: Silicon Valley Chapter](#) and [Climate Action California](#) respectfully offer the following comments and recommendations pertaining to the Voluntary Renewable Energy (VRE) Program.

We recommend that the VRE Program be renewed and strengthened to ensure its responsiveness to efforts by individuals and institutions seeking to support and accelerate the state's climate goals through their individual actions. In response to the specific questions posed on page 62 of the July 27, 2023 Cap-and-Trade Workshop Presentation, we recommend the following:

**Q: Should the VRE Reserve be replenished?**

A: Either the reserve, or an alternative mechanism for retiring allowances associated with VRE purchases, should be established pursuant to [HSC 38562\(b\)\(1\)](#), which requires CARB to "design the regulations, including distribution of emissions allowances where appropriate, in a manner that ... encourages early action to reduce greenhouse gas emissions." To ensure that such early action does, in fact, result in reduced greenhouse gas emissions, the allowance retirement mechanism should satisfy the following additional condition: **Any allowances retired in connection with VRE purchases should be additional to any allowances that had already been retired**

**or irrevocably put in reserve prior to the VRE purchase, or that would have been retired or irrevocably put in reserve in the absence of the VRE purchase.** (The current VRE Reserve does not satisfy this condition.)

**Q: From what budgets should the VRE Reserve be populated?**

**A: If possible and practicable, allowances should be retired from accounts that accrue the surplus allowances resulting from VRE purchases.** For example, if a VRE purchase results in reduced GHG emissions by a utility that receives a free allocation of allowances, then the associated surplus allowances would be retired from that utility's account or from its allocation. If the utility purchases its allowances, then the surplus allowances should be retired from CARB's allowance budget.

**Q: What number of allowances should be designated to the VRE Reserve?**

A: Pursuant to HSC 38562(b)(1), the number of retired allowances should be determined by VRE demand and **should not be numerically limited.**

## **DISCUSSION**

The VRE Program represents one particular approach for adjusting the supply of allowances in response to additional climate actions, per the following broad recommendation of the IEMAC as stated in its [comments on the June 14, 2023 Cap-and-Trade Workshop](#):

Presently, the supply of emissions allowances is unresponsive to the success of regulations or the efforts of individuals and institutions to address their climate impact across a range of outcomes. As a result, the success of other efforts reduces allowance prices, compliance costs, and the relative importance of the carbon market in the state's policy portfolio. CARB has the opportunity in the upcoming rulemaking process to take important steps to remedy this dilemma and position the carbon market to amplify the accomplishments of regulatory programs. This can be done by adjusting the supply of allowances dynamically in response to the success of regulations and individual actions.

The policy rationale for the VRE Reserve was articulated in CARB's *October 28, 2010 Initial Statement of Reasons for the Cap-and-Trade Program*.<sup>1</sup> Quoting from section II.H.4 (page II-28):

---

<sup>1</sup> <https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2010/capandtrade10/capisor.pdf#page=58>

#### **4. Voluntary Renewable Energy Allowance Set-Aside**

The proposed regulation includes a placeholder for setting aside a small portion of the allowance pool to address the potential impacts of the cap-and-trade program on the voluntary renewable energy (VRE) market. At present individual decisions to purchase renewable energy in California can lead to reductions in greenhouse gas emissions. Implementation of the cap-and-trade program could change that dynamic because the amount of greenhouse gas emissions allowed will be pre-established by the cap level. As a result, decisions to purchase renewable energy free up emission allowances that would have been needed to generate electricity from fossil fuels, allowing other regulated entities to emit more than they could have otherwise. In essence, the voluntary purchase of renewable energy lessens the regulatory burden on greenhouse gas emitters.

Without an allowance set-aside for VRE purchase, once the cap-and-trade program is in place, the voluntary use of electricity generated from renewable resources and delivered to California would no longer contribute additional greenhouse gas emission reductions because the level of allowable emissions is determined by the cap. A VRE set-aside has been implemented in the cap-and-trade system in the US Northeast (the Regional Greenhouse Gas Initiative, or RGGI). In order to implement an effective VRE set-aside, ARB would need to establish clear accounting rules to determine the relationship of voluntary renewable energy generation and GHG emissions avoided. Additionally, a process for reviewing VRE purchase claims would be needed as part of the process of retiring allowances from the set aside. Because the accounting rules and process for retiring allowances from the set aside have not yet been developed and undergone review, the current regulation only includes a placeholder for future inclusion of this mechanism.

But under CARB's implementation of the VRE Program, the voluntary use of renewable electricity still "would no longer contribute additional greenhouse gas emission reductions" because the "retired" allowances were already retired, in effect, when they were irrevocably put into the VRE reserve and taken out of circulation. The number of allowances allocated to the reserve was not connected in any way to actual VRE purchases; consequently, there is no "relationship of voluntary renewable energy generation and GHG emissions avoided."

The set-aside allocation was fixed in advance at 0.5% of CARB's annual allowance budget in 2013-2014, and at 0.25% in 2015-2020. No set-aside was authorized beyond

2020. In its *October 2011 Final Statement of Reasons for the Cap-and-Trade Program*,<sup>2</sup> CARB rejected stakeholder arguments that there should be no predetermined quantity or time limits on the VRE allowance set-aside. In response to comment I-83 from 3 Degrees, CARB characterized the VRE program is a short-term “transitional strategy,” which should not continue past 2020:

**Response:** We believe that allowing voluntary renewable electricity to retire allowances is a transitional strategy. In general, this regulation imposes costs on GHG-emitting activities under the cap and does not in any way give credit for any kind of activities within the capped sectors that do not emit GHGs. We make a temporary exception for voluntary renewable electricity so that during the early years of the cap-and-trade program, the voluntary market can continue to sell its product as something that reduces GHG emissions. We expect voluntary use of renewables to continue to increase as electricity users seek ways to produce their own, emission-free electricity, regardless of whether it reduces the cap. As allowance prices rise, and assuming that the cost of renewable electricity will continue to fall, electricity end-users will have increasing economic incentives to purchase electricity that is not subject to a carbon price, including voluntary renewables. We added section 95870.1(c) that provides for transfer of allowances to the VRE reserve account through the budget year 2020, which covers the entire period of the cap instituted with this regulation. New section 95870(c) provides for the transfer of allowances to the VRE Reserve Account. For 2013 and 2014, 0.5 percent of the allowances will be transferred, and for 2015-2020, 0.25 percent of the allowances will be transferred each year. Our internal analysis of VRE demand led to the conclusion that the amount transferred during the first two years will likely be sufficient to meet the full demand for VRE allowance retirement. Because this is a transitional program, we cut the annual VRE reserve account allocation by 50 percent for 2015-2020.

This reasoning, however, failed to recognize that ratepayers might not be motivated by “economic incentives” to reduce their carbon footprint. Moreover, the economic incentives of rising allowance prices would only motivate use of renewable electricity sufficient to achieve CARB’s statewide emissions cap; there is no incentive or mechanism for achieving overcompliance.

The fundamental policy issue in question with the VRE Reserve is whether individuals and organizations should have the right and the ability to eliminate their carbon footprint (at their own expense) or to reduce their carbon footprint beyond minimal statutory

---

<sup>2</sup> <https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2010/capandtrade10/fsor.pdf#page=625>

requirements. The 2010 Initial Statement of Reasons asserted that they should. Yet the 2011 Final Statement of Reasons argued that they should not, contravening the clear statutory mandate requiring CARB to “Design the regulations, including distribution of emissions allowances where appropriate, in a manner that is equitable, seeks to minimize costs and maximize the total benefits to California, and encourages early action to reduce greenhouse gas emissions.” [HSC 38562(b)(1)] VRE purchases constitute an “early action” that does not impose any costs on California, inasmuch as the VRE is voluntarily paid for by the purchaser. Any emission reductions achieved under CARB’s current VRE Program have resulted solely from CARB’s initial action in setting aside allowances for the reserve, and could have been achieved without any connection to VRE. VRE purchases have had no effect on the number of allowances in the VRE Reserve or on emissions; they merely operate to reduce regulatory compliance costs of fossil fuel combustion.

To the extent that VRE purchases deliver real GHG reductions in capped sectors, regulated entities will accrue surplus allowances in addition to VRE sales revenue. Without allowance retirement, those surplus allowances will allow utilities to sell more fossil-fuel energy to other customers, or to sell the allowances to other industries using fossil fuels, thus nullifying any environmental benefit of the VRE sale. The allowances should be retired from accounts that accrue the surplus allowances to ensure that VRE purchases have a real impact on emissions, and any VRE allowance reserve should be responsive to VRE demand to establish a clear causal connection between VRE purchases and reduced statewide emissions.

Thank you for considering our perspectives, and we look forward to continuing to participate in CARB's Cap-and-Trade planning process.

Sincerely,

Kenneth Johnson, Legislation and Public Policy Committee  
The Climate Reality Project: Silicon Valley Chapter

Janet Cox, CEO  
Climate Action California