

October 25th, 2023

California Air Resources Board

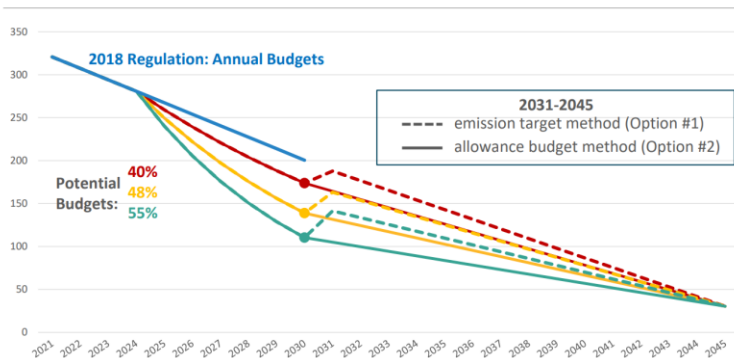
Subject: Key Recommendations on Cap-and-Trade Regulation Amendments

Dear Board,

Sigma Advanced Capital Management LLC is writing this letter to express our support for the recommendations related to the recent California Public Workshop on Potential Amendments to the Cap-and-Trade Regulation, released on October 5, 2023, and express our comments on the key factors that are vital for the continued success and effectiveness of the Cap-and-Trade program in addressing climate change and driving sustainable, long-term solutions.

At the heart of our comments lies to establish ambitious emission reduction targets. We firmly endorse a reduction target of 55% in CO₂ emissions, achieved through the efficient allowances budget method. Nonetheless, we acknowledge that a 48% reduction target can serve as a robust baseline scenario. Our endorsement of the allowances budget method is founded on the prospect of more rapid reductions in allowances between 2025 and 2030.

Illustrative Allowance Budgets for 2021-2045



This accelerated reduction is expected to yield numerous benefits for the program. Most notably, a 55% reduction target conveys a strong market signal of unwavering commitment to climate change policy, particularly given that a significant portion of the allowance reduction occurs between 2025 and 2030. Importantly, we recommend against the 40% target, as it could potentially lead to a lack of confidence and lower prices. We've observed that a lack of commitments can impact program stability and liquidity, as evidenced in the UKA market.

Furthermore, a higher reduction in the near future can stimulate short-term price increases in preceding years. This has two significant outcomes. Firstly, it results in an increased flow of funds to California Climate Investments and related initiatives, expediting investment in projects that can yield more significant benefits in the short term. Secondly, it underscores the importance of incentivizing the transition to cleaner energy sources and promoting the competitiveness of emerging technologies. As these technologies become more incentivized, abatement prices will decrease, further contributing to higher emission reductions.

Our second recommendation supports the notion that reductions in allowances should primarily come from allocation pool. This approach ensures a more direct and effective means of reducing emissions, aligning with the core principles of the Cap-and-Trade system.

Third, we firmly believe it's imperative for the program's lifespan to extend past 2030. Clean technology development requires time, and the program's longevity is essential for promoting the research and adoption of these technologies, alongside maintaining ongoing commitments. Long-term investments in clean technology are essential to achieving meaningful reductions in greenhouse gas emissions.

Another crucial recommendation is the minimal use of offsets in the system, and if used we strongly suggest the use of permanent removal offsets. It's essential to acknowledge that, despite the considerable progress within the offset market, highlighted by the publication of Voluntary Core Principles and the Claim Code of Practice in 2023, further development and standardization are necessary. Ongoing initiatives in this domain indicate a positive trajectory toward market enhancement. However, the offset market encompasses several projects and different variants, making supply regulation more challenging. This challenge has the potential to impact price stability and disrupt the balance between supply and demand in the California ETS System. Lastly, we suggest reviewing and increasing the ceiling prices for the reserve mechanisms to align closely with the new scenarios.

Sigma Advanced Capital Management hopes that the California Air Resources Board will consider these comments, as they hold the potential to fortify and enhance the Cap-and-Trade program. Your thoughtful deliberation and action on these matters will undoubtedly contribute to a more sustainable and environmentally responsible future for the state and beyond.

Thank you for your commitment and work to addressing climate change.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Carlos Arcila-Barrera', is positioned above the printed name.

Carlos Arcila-Barrera

Chief Executive Officer

Sigma Advanced Capital Management LLC