



December 13, 2023

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

Re: Response to Western States Petroleum Association

Dear Dr. Sippola,

In the last several Cap-and-Trade workshops, CARB has been considering allowance budget scenarios based on a 40%, 48%, or 55% reduction target in 2030. In response to the October 5, 2023 workshop, CARB received 57 comment letters, of which four recommended the 55% target, eight recommended 48%, and one (from WSPA) recommended 40%. These comments are directed to CARB, WSPA, and other stakeholders to address some of the concerns raised by WSPA in [its letter](#), and to point out that (1) the feasibility concerns raised by WSPA have previously been addressed by the AB 398 price ceiling, and (2) the carbon price is less important than Cap-and-Trade revenue allocation in mitigating economic impacts such as leakage and high gasoline prices.

WSPA asserted that “CARB’s 55% GHG reduction target scenario is not technologically feasible” and that “even a 48% GHG reduction target may not be achievable by 2030”. However, the feasibility question has been mooted by AB 398 because the emission cap is non-binding and is preempted by the price ceiling. The WSPA, having led the [industry consortium](#) that secured passage of AB 398, should not now ignore the protections it provides in arguing for a less ambitious target.

AB 32 directs CARB to adopt regulations to achieve the maximum technologically feasible and cost-effective GHG emission reductions. According to the statute, “‘Cost-effective’ or ‘cost-effectiveness’ means the cost per unit of reduced emissions of greenhouse gases adjusted for its global warming potential.” Pursuant to AB 398, CARB

has established an allowance price ceiling as a cost-effectiveness standard based on consideration on six enumerated statutory criteria, the first being “The need to avoid adverse impacts on resident households, businesses, and the state’s economy.” (HSC §38562(c)(2)(A)(i)(I)) To the extent that any of the allowance budget scenarios being considered by CARB fails to avoid such adverse impacts, that would be a manifestation of the price ceiling and not of the emissions target.

However, allowance prices are not the only or the most significant determinant of economic costs; what is more important is how allowance carbon pricing revenue is spent. For example, the current price ceiling of \$81.50/ton would translate to an electricity price change of \$0.015/kWh (based on [slide 24](#) in the November 16 workshop presentation), but ratepayers get much of that back as a “climate credit” on their utility bills. Similarly, \$81.50/ton would translate to a gasoline price increase of \$0.73/gal, but allowance sales revenue could similarly be returned to consumers (especially low-income consumers) to offset the impact of carbon pricing on their transportation costs pursuant to SB X1-2. Alternatively, output-based allocation can be used to mitigate adverse impacts on both businesses and consumers, and to avoid leakage. Revenue can also be allocated to finance or directly subsidize low-carbon technologies and to minimize the cost of decarbonization for regulated industries.

With the price ceiling and allocation method established to ensure feasibility and cost-effectiveness, the emission target - 40%, 48%, or 55% - should be determined to achieve the maximum GHG emission reductions. According to the preliminary UC Davis [modeling results](#) presented in the November 16 workshop, allowance prices would likely be at or very near to the ceiling in the 2030-2040 time frame under all three scenarios. However, adopting a 55% target would at least admit the possibility of achieving the higher target in the event that compliance costs are lower than expected, whereas setting a lower target would preclude such possibility. Thus, the higher target would be more likely to achieve the maximum potential emission reductions pursuant to AB 32.

If prices are at the ceiling, the emission cap is non-binding but it would not be entirely ineffectual. The revenue from allowance sales in excess of the cap is required by AB 398 to be spent on emission offsets (e.g., CDR), and a more stringent cap (e.g., 55% reduction) would require a greater allocation of revenue to offsets. (HSC §38562(c)(2)(A)(ii)(II)) However, the revenue could be better spent on decarbonizing the regulated industries whose emissions are driving up allowance prices, if such expenditure were legislatively authorized. To the extent that such industries need to be decarbonized sooner or later to achieve statewide carbon-neutrality goals, the diversion of carbon pricing revenue to cheap and easy offsets would merely “kick the can down the road” and increase the long-term cost of decarbonizing regulated sectors. CARB

and stakeholders should work with the State Legislature on reforming AB 398 to give CARB greater flexibility and policy direction in the expenditure of over-the-cap allowance sales revenue.

CARB's and WSPA's focus on emission targets might be misplaced because the price ceiling could be the primary determinant of emissions, as suggested by the UC Davis study. CARB indicated [possible receptiveness](#) to an upward revision of the price ceiling in the November 16 workshop, but any such revision should be accompanied by a review and reform of revenue allocation to maximize the potential emissions reduction while addressing "The need to avoid adverse impacts on resident households, businesses, and the state's economy."

Sincerely,

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

copy to:
Tanya DeRivi
Senior Director, California Climate and Fuels
Western States Petroleum Association