December 15, 2023

Ms. Rajinder Sahota
Deputy Executive Office
California Air Resources Board
1001 I Street
Sacramento, CA 95814

DRAFT

Electronic Submittal: Workshop Docket

Re: Anew comments in response to November 16, 2023, CARB Public Joint Cap and Trade Workshop with Quebec

As an active participant in the California Cap-and-Trade Program (the "Program"), Anew Climate ("Anew") appreciates CARB hosting the November 16 joint workshop with Quebec. We appreciate the opportunity to provide CARB with additional comments in strong support of the Program. We would like to reiterate some points we made in our comments dated October 26, 2023, and underscore the importance of including offsets in a program extension to ensure that the program remains durable, efficient, and cost effective.

Anew is one of the largest climate solutions companies in North America. Anew has a successful track record within the markets for voluntary and compliance carbon credits, renewable natural gas, low carbon fuels, electric vehicle credits, and renewable energy certificates. We have been active participants in California's Cap-and-Trade Program since its inception, with a particular focus on forestry. To date, we have developed 20 compliance forest projects, which have generated over 18.6 million credits to date across 1.8 million acres, making us one of the most active forest carbon project developers. More importantly, over this time we have seen radical changes in the behavior of forest landowners as a result of California's program. By sending a strong carbon price signal that competes with traditional timber revenues, millions of acres of forestland are being conserved under California's offset program at faster rates than traditional conservation easements have been able to achieve. Capital markets are watching too, and last year Anew helped mobilize $1.8 Billion for the climate: the conservation of previously industrially-managed forestlands, an investment that would not have been possible without carbon pricing incentives like California's offset program.

We would like to strongly reiterate that we support extension of the Program. The Program should be extended through at least 2045 with caps declining to net-zero emissions. More clarity and direction about the future trajectory of the Program would allow longer-term planning for investments into emission reduction strategies and technologies.

One of the questions asked during the November 16 presentation was: "What are the implications for cost-containment associated with removing allowances from future budgets and/or from the APCR tiers and price ceiling?"

First and foremost, we strongly support CARB's plan to continue to increase the Program's ambition along with the continued inclusion of offsets. Anew is supportive of a more ambitious 2030 cap, provided that carbon offsets are available to play a material role in cost containment through 2045. As a proponent of market-based mechanisms, Anew believes that the Program should continue to incentivize high-quality carbon offsets and removal investments to occur and be used toward the State's 2045 carbon neutrality goal.

Compliance offsets provide important cost containment, minimizing compliance cost without compromising environmental integrity. Credits also represent real emission results and provide an important incentive for climate action beyond that provided by those directly regulated in the program. We appreciate the significant work CARB has commissioned and is undertaking itself regarding the modeling of different scenarios for extending the Program beyond 2030 to achieve even higher emissions reductions, including with respect to evaluating the economic impact of these changes on the California economy and its residents.

Another question posed on November 16 was: "How can cost-containment features reflect a real-time valuation of allowance prices and be designed to enhance price stability?"

Carbon credits reflect an absolute real-time valuation of the cost of allowances in the market. Carbon credit prices are constantly adjusting, making carbon credits a flexible mechanism that responds in real time to prices and developments in the market. When California allowance prices decrease, the price of offsets automatically adjusts, unlike other mechanisms – such as price ceilings and price floors – which do not automatically adjust to market conditions.

It was noted during the November workshop that staff are assessing market rules and cost-containment provisions to support an efficient, predictable and steady program. The presentation stressed that cost-effectiveness is an important element of program design for both California and Québec. In fact, AB 32 requires CARB to consider cost-effectiveness in program design. CARB's presentation mentioned multiple elements to optimize cost-effectiveness. These include multi-year compliance periods; allowance banking, subject to strict holding limits; the limited use of offset credits; and an Allowance Price Containment Reserve (APCR). Compliance offsets that meet CARB's rigorous and robust standards – i.e., those that are real, quantifiable, permanent, verifiable, additional, transparent, and enforceable - are a key tool in CARB's toolbox to achieve this desired outcome.

These high-quality compliance offsets allow individual emitters to lower their compliance cost while also steering financing toward important mitigation activities that are not directly covered by the Program's compliance requirements. CARB has previously stated, "although they can only be used for a small percentage of a company's overall compliance obligation, offsets serve as important cost-containment in the Cap-and-Trade Program because they are typically slightly cheaper than buying carbon allowances at the State-run quarterly auctions." Credits also provide an important flexibility option that potentially helps avoid triggering the APCR.

For a more granular view of the cost savings that companies and the larger California economy can achieve through the use of compliance offsets, it is helpful to briefly examine the recent quantity and cost of carbon allowances that were purchased at quarterly auctions in comparison to the cost of compliance offsets and the price discounts they offer:

In 2023, a total of 225,857,906 allowances were sold in joint current allowance auctions in the California-Quebec linked market. The total cost, based on current allowance action prices as published, was $7,465,949,518 ($7.47 billion). The current auction settlement price rose from $27.85 in February to $30.33 in May, to $35.20 in August, and finally $38.73 in November. Prices on December 1 were at $38.83. In comparison, compliance carbon offset (CCO) prices in early December were approximately $30 for CCOs with direct environmental benefits to the state (DEBS) and $17 for non-DEBS CCOs. Thus, the discount for carbon offsets compared to allowance prices is approximately 22.5% for CCOs-DEBS and 55% for CCOs.

Given that emitters may currently meet up to 4% of their compliance obligation with CCOs (up to 2% with non-DEBS CCOs), they can benefit from a 22.5% price discount for 2% of their obligation, and a 55% price discount for 2% of their obligation. Taken together, these potential savings equate to a 38.75% discount on the 4% of their obligation that can be met through offsets, translating to a 1.55% discount on their overall compliance obligation. Given the total 2023 cost of current auction carbon allowances of $7,465,949,518 a 1.55% discount translates into savings of $115,722,217, i.e., a significant savings for California companies and consumers. We anticipate that toward 2030 and beyond, these savings will continue to increase as the cost of carbon allowances rises with the declining cap, and when the percentage of offsets rises back to 6% in 2026. Given that allowance prices are expected to continue to rise over time, additional saving could be achieved, if CARB were to raise the offset limit back up to 8% after 2030.

In addition to providing cost containment, compliance offsets provide important co-benefits to the state and its communities. The continued inclusion of offsets as a GHG mitigation policy option, both in statute and regulation, also recognizes the myriad of social, environmental, and economic co-benefits to California realized in all areas of the state, including tribal, rural, and urban communities. Anew supports CARB's recognition that many of the approved offset projects provide direct environmental benefits to California, including improvements in air and water quality, as well as conservation, biodiversity and local economic benefits that come with technological innovation and bring new jobs and skills to the state. We believe it is important to note that out-of-state offset projects also enable California to magnify its climate ambition and leadership through climate action in other jurisdictions.

The offset usage limit should be raised to its previous level of 8% post-2030. To ensure there is sufficient demand for continued project development, Anew recommends returning the offset usage limit to 8% post-2030, from the 6% level that will be in place during 2026-2030. In absolute terms, returning to 8% usage in 2031 would not result in an increase in offsets utilized versus 2026, as the higher percentage would be calculated against a much smaller overall budget. As the cap declines and the marginal cost of abatement increases, this will improve cost containment.

To summarize, Anew appreciates CARB's efforts to maintain the rigor and high level of integrity of the Program and achieve California's ambitious climate goals. We are facing a climate crisis and we need all of the emission reductions and removals we can find in California and beyond. We value the opportunity to provide comments today and look forward to offering further support to CARB in the coming months.

Should you have any questions pertaining to Anew and our statements here, please do not hesitate to reach out to me or our Head of Advisory, Janet Peace via jpeace@anewclimate.com.

Sincerely,

Angela Schwarz

Angela Schwarz
Chief Executive Officer

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