EDF ENVIRONMENTAL DEFENSE FUND™
Finding the ways that work

December 14, 2023

Ms. Liane Randolph
Chair, California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Comments on November 16 CARB workshop regarding updates to California's Cap-and-Trade Program

Dear Chair Randolph,

On behalf of Environmental Defense Fund (EDF), we appreciate the opportunity to provide comments on the November 16, 2023 workshop on updates to the California Cap-and-Trade Program. As always, EDF appreciates CARB's work on this crucial program and we look forward to continued engagement through the informal and formal rulemaking processes. The comments below respond to a few aspects of the most recent public workshop, as well as considerations we recommend CARB take up in this or future rulemakings.

In this and previous workshops, CARB has emphasized the critical importance of securing maximum reductions as quickly as possible to avoid the worst impacts of climate change. Reducing emissions *in this decade* is absolutely essential to stay within the carbon dioxide budgets identified by the Intergovernmental Panel on Climate Change (IPCC) to limit global warming to 1.5C. To that end, we appreciate the emphasis CARB has placed on near-term ambition and reducing emissions at the pace and scale necessary by 2030, and on the cumulative climate benefits that accrue from near-term reductions.

The Cap-and-Trade Program in California is a crucial part of ensuring the state meets its reduction goals, and CARB's commitment to increasing the ambition of this landmark program is laudable. CARB must ensure that the emissions cap be calibrated to achieve at least a 48% reduction below 1990 emissions by 2030 that the Scoping Plan determines is necessary to be on track for net-zero by 2045.

Additional modeling that is more reflective of the 2022 Scoping Plan is needed.

CARB has presented multiple potential scenarios for achieving increased ambition by 2030, and the economic modeling presented by UC Davis at this most recent workshop provided some additional context for the ambition pathways being considered beyond 2030. However, the modeling did not account for many of the constraints and potential opportunities that were laid out in the 2022 Scoping Plan, thus limiting the applicability of this modeling to our understanding of the true economic impacts of increased ambition in the near and longer term. Most notably, the modeling omitted assumptions around hydrogen, carbon capture and storage (CCS) and carbon dioxide removal (CDR), all of which were assumed in the 2022 Scoping Plan to play significant roles in achieving California's climate goals. EDF supports the comments submitted December 15, 2023 by the California Carbon Markets Collaborative, which discusses in detail the potential tons of reductions assumed in the Scoping Plan attributable to each of these strategies, and underscores the shortcoming of any modeling that fails to take into account the significant contribution these technologies could make, under certain circumstances, in achieving climate goals. As CARB moves forward in this rulemaking process, we encourage more robust modeling be done that takes these strategies into consideration.

Additionally, as EDF has previously commented, we encourage CARB to undertake modeling to account for the *emissions* impact of the various scenarios presented, including modeling to account for banked allowances and certain uncapped emissions. Understanding the true impact of these potential cap adjustments through modeling, both on the cost of compliance and on the actual tons of emissions reduced through compliance, is a necessary next step to gain a more accurate picture of how the Cap-and-Trade Program can be best optimized to achieve reductions.

<u>The ability to bank allowances is an integral feature of the Cap-and-Trade program.</u>

The ability to bank allowances is an essential feature of California's cap-and-trade program, and it plays an important role in incentivizing near-term emissions reductions. Banking allowances essentially functions to pull emissions reductions forward in time, thus maximizing cumulative reductions; if a company buys an allowance and decides to bank it rather than turn it in for compliance in the near term, that allowance represents a ton of emissions that is not being emitted now. The economic incentive to buy allowances in the near term and save them for later, with the expectation that prices will increase over time, creates an incentive for earlier remissions reductions and thus a benefit for the atmosphere. CARB has developed a successful approach to appropriately limit the amount of allowances banked while avoiding expiration dates on allowances, and EDF supports continuation of the existing rules.

<u>Implement an Emissions Containment Reserve to increase climate ambition when prices are low.</u>

EDF recommends that CARB consider incorporating an Emissions Containment Reserve (ECR) into its program, leveraging the frameworks already established in Washington's Climate Commitment Act (CCA) and the Regional Greenhouse Gas Initiative (RGGI). Similar to the existing Allowance Price Containment Reserve (APCR), an ECR would adjust the supply of allowances available at auction in response to the price. If prices at auction remain near the price floor, fewer allowances would be made available for purchase – creating a temporary tightening of the emissions cap.

This approach is predictable, based on auction settlement prices, and represents a modest increase in climate ambition when emission reductions are relatively less expensive. Allowances not offered for sale now represent emissions that are not occurring now, and if those allowances are then permanently retired, then California is achieving greater cumulative emission reductions. Importantly, if allowances are not permanently retired, they may be added to the market to permit additional emissions later in the decade. Thus, to increase the ambition of the cap-and-trade program, an ECR should permanently remove excess allowances.

Consider price stabilization strategies through a broader regional market.

CARB should consider the cost containment and stabilization benefits that a broader linked market offers. To the extent there is potential price uncertainty in California's program and the uncertainty of large-scale deployment of new decarbonization technologies envisioned in the Scoping Plan, California stands to benefit from joining a linked market with Washington. Washington's Department of Ecology announced in early November its decision to pursue linkage with the joint California-Quebec market, and CARB should pursue a similar decision with all possible urgency. California and Quebec can both see important benefits from linking their market with Washington's, particularly due to the increased liquidity that a larger linked market offers. More liquidity means every participating jurisdiction is more insulated from price shocks, which translates to more stable prices across the board. Market stability is important to the long-term success of market-based climate policy, and with greater confidence in the system, there's greater certainty in meeting climate goals.

California has long been a national leader on climate, and linkage presents an opportunity to enhance and extend California's leadership legacy. California and Quebec cannot solve climate change on their own; yet one of the unique roles that California plays in advancing climate policy is providing a model for other jurisdictions to follow. Time and again California has led the way on vehicle standards, clean fuel standards, and the carbon market. As more jurisdictions seek to follow California's lead, the state should take all appropriate steps to join forces.

Lastly, as we have previously commented, EDF also encourages CARB to use these workshops and modeling efforts to explore other potential program updates, such as facility-level caps and bringing offsets under the cap. For more detail on these recommendations, please refer to our comments on the June 14 workshop.

EDF appreciates CARB's continued climate leadership to update the state's landmark cap-and-trade program. Although California shares the burden of responsibility with other geographies across the US and abroad, California also has the privilege of leadership, having already acquired a historical reputation for forward-thinking policy design. Effectively calibrating the cap to the state's goals, containing prices while maintaining environmental integrity, and stabilizing the market by broadening its reach through linkage, are among the many steps CARB can take to accelerate the decarbonization of California's economy and advancing the state of climate policy beyond its borders.

We look forward to working closely with staff and stakeholders to ensure the final product of this process is a program that maximizes climate ambition, supports local air quality improvements, continues to provide appropriate compliance flexibility and cost containment, and remains a model for other jurisdictions looking to accelerate their own climate leadership.

Sincerely,

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