



December 15, 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,

We appreciate the opportunity to offer our input regarding the workshops held on November 16, 2023, which considered updates to the California Cap-and-Trade Program. We extend our appreciation for your efforts in strengthening this important policy tool, crucial for achieving, and potentially surpassing, California's emissions reduction goals. We appreciate continued collaboration with CARB, encompassing both informal exchanges and formal procedures, to address needed refinements to the Cap-and-Trade program.

The following comments are a response to the workshop proposals from November 16, and they also highlight critical issues we recommend CARB address in upcoming workshops.

As underscored by U.N. Secretary General Antonio Guterres in March 2023, the "climate time bomb is ticking" demanding immediate action to curtail GHG emissions. The global surge in extreme weather events throughout this year serves as a stark reminder of the disastrous repercussions of procrastination. It is imperative that our

climate aspirations align with the escalating severity of climate change effects. The emissions reduction targets within the California cap-and-trade framework must embody this sense of urgency.

We strongly advocate for CARB to increase the ambition of the emissions limit to *at least align with - and even surpass - the 2022 Scoping Plan goal.*

As CARB has previously noted, California exceeded expectations and achieved its 2020 greenhouse gas emission goal years ahead of schedule. As such, the state has a clear opportunity to increase the ambition of the cap-and-trade program by updating allowance budgets to reflect these reductions. At the same time, the 2022 Scoping Plan was clear that if California is to be on track to achieve the required target of net-zero greenhouse gas emissions by 2045, coupled with an 85% reduction in emissions below the 1990 level, we must go beyond the statutory 2030 greenhouse gas reduction goal. We urge CARB to enact a cap adjustment that enables California to meet the level of ambition envisioned in the 2022 Scoping Plan - at a minimum - and even surpass the Scoping Plan goal.

We recommend the reduction in the allowance budget be reflected in the number of allowances allocated directly to covered entities and offered at auction.

To ensure that the cap adjustment achieves actual reductions in the near-term, CARB should reduce the allowance pool for direct allocation and for allowance auctions. Other options such as drawing from the Allowance Price Containment Reserve (APCR) or from the price ceiling, are not an effective way to achieve the goal of this cap adjustment and would risk disincentivizing near-term reductions. Reducing the number of allowances in the APCR only serves to reduce the efficacy of an important cost containment feature of the program and would not ensure near-term reductions, because the quantity of allowances available for auction or allocation remains unchanged from the current cap trajectory.

We recommend that CARB increase price points of the Allowance Price Containment Reserve (APCR) and price ceiling to reflect the updated Social Cost of Carbon and other updates

The Allowance Price Containment Reserve (APCR) is an important cost-containment feature that can help to reduce spikes in allowance prices and maintain market stability. As noted in slide 54, the full social cost of carbon (SCC) is an important factor in setting the price triggers and ceiling. The EPA recommends the SCC be updated from \$51 to

\$190, a more than 300% increase¹. This increase reflects recent research showing the real damage costs of additional GHG emissions. The price triggers and ceiling prices need to be revised and increased to incorporate this important new information. We recommend these adjustments be made on a one-time basis to correspond with the cap adjustment, and then maintain the existing 5% plus inflation rate of annual increase.

We recommend CARB incorporate an Emissions Containment Reserve (ECR) into the cap-and-trade program.

In slide 59, CARB asks for feedback on whether there should be a mechanism where auction supply reflects recent auction settlement prices. The auction supply should reflect recent auction settlement prices. Currently this only exists when allowance prices reach critical high trigger points; there is no mechanism for low prices. There needs to be a new mechanism to deal with low prices.

An Emissions Containment Reserve (ECR) automatically lowers allowance supply in response to low allowance prices. ECRs are already established in both Washington's Climate Commitment Act (CCA) and the Regional Greenhouse Gas Initiative (RGGI). Like the existing APCR, an ECR would adjust the supply of allowances available at auction in response to the price. If auction prices remain near the price floor, then fewer allowances are available for purchase, representing a temporary tightening of the emissions cap. The benefit of this approach is that it is predictable based on auction settlement prices and represents a modest increase in climate ambition when emission reductions are relatively inexpensive. 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, as is the case with the existing "24 month rule" where unsold allowances can be re-offered for sale in the future, those allowances 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.

We recommend offsets be counted below the cap.

When offsets are used we recommend they count below the cap, as is done in the Washington State cap and invest program.² As recommended by the Independent Emissions Market Advisory Committee, this approach would contain concerns about low-quality offsets by creating an automatic cap adjustment when offsets are used for

¹ https://www.epa.gov/system/files/documents/2023-12/epa_scghg_2023_report_final.pdf

² <https://waconservationaction.org/carbon-offsets-and-how-they-relate-to-the-climate-commitment-act/>

compliance.³ Several studies have shown that some offset protocols are not sufficiently rigorous, and emission reductions can lack permanence or additionality.

We recommend the addition of facility-level emission caps.

No carbon trading zones or [facility-level emission caps](#) should be considered in air quality nonattainment areas, on specific facilities, or CalEnviroScreen-designated disadvantaged communities at the facility level. As recommended by both the Environmental Justice Advisory Committee⁴ and Independent Emissions Market Advisory Committee,⁵ facility-specific restrictions on trading allowances would support greater climate ambition by facilities in overburdened communities or certain types of facilities by ensuring their emissions decline at least as fast as the overall emissions cap. Alongside these reductions would likely be greater improvements in local air emissions. Resources for the Future has also recently examined the concept of facility-specific emission caps and found the impact on the emissions market to be minimal.⁶

We propose a comprehensive review of the free allowances allocated to Emission Intensive Trade Exposed (EITE) firms.

The allocation of free allowances is designed to prevent emissions leakage and remove any competitive disadvantage that may occur as a result of the price on carbon pollution. However, this allocation may be too generous to sufficiently encourage decarbonization efforts. There is a pressing need for robust policies that promote decarbonization in these emission-intensive industries.

We recommend CARB adopt a more targeted approach. Specifically, CARB should (1) adopt an aggressive cap adjustment that does not delay implementation as some scenarios under consideration would, and instead maintain a "straight-line" approach to reducing the cap to at least the 48% level in line with the Scoping Plan, and potentially the 55% level that is best supported by the scientific realities of the climate crisis and California's position as a wealthy and stable leadership jurisdiction; (2) apply this cap adjustment to EITE allocations, but consider applying a more rapid phase-in for facilities that have not reduced direct emissions significantly since the program began and/or

³ <https://calepa.ca.gov/wp-content/uploads/sites/6/2022/02/2021-IEMAC-Annual-Report.pdf>

⁴ <https://ww2.arb.ca.gov/sites/default/files/barcu/board/books/2022/090122/finalejacrecs.pdf>

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<https://calepa.ca.gov/wp-content/uploads/sites/6/2023/02/2022-ANNUAL-REPORT-OF-THE-INDEPENDENT-EMISSIONS-MARKET-ADVISORY-COMMITTEE-2.pdf>

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<https://www.rff.org/publications/reports/how-would-facility-specific-emissions-caps-affect-the-california-carbon-market/>

significantly impact disadvantaged communities; and (3) carry out a comprehensive review and update to efficiency benchmark factors.

We request additional details and greater transparency with respect to the UC Davis modeling objectives, methodology, and inputs.

We appreciate the modeling work and presentation by Dr. Jim Bushnell at the November 16 workshop. It would be helpful to have the model be open source so that the model assumptions and relationships are transparent. Specifically, the 2022 Scoping Plan assumed significant amounts of hydrogen, carbon capture, and carbon dioxide removal would be needed to achieve California's climate goals. Yet none of these potential abatement or removal strategies were included in the modeling, which casts doubt on the usefulness of the allowance price forecast presented. It would be helpful to see modeling that reflects the assumptions made in the 2022 Scoping Plan, as well as greater detail about other assumptions made and methodology used.

We extend our gratitude to CARB for its commitment to climate leadership in this review and enhancement of California's cap-and-trade program. This ongoing and essential process of refinement is critical to ensure a more effective cap and trade program, one that integrates valuable insights garnered from over a decade of real-world experience.

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

Respectively Submitted,

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