California Council for Environmental and Economic Balance
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December 15, 2023

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

Re: Comments on the Cap-and-Trade Program Workshop, November 16, 2023

Dear Dr. Sippola,

On behalf of the California Council for Environmental & Economic Balance (CCEEB), we write to provide comments on the potential changes to California's Cap-and-Trade (C&T) Program. CCEEB is a coalition of business, labor, and public leaders that works together to advance strategies to achieve a sound economy and a healthy environment. Founded in 1973, CCEEB is a non-profit and non-partisan organization.

We appreciate the initial modeling scenarios, results, and thorough presentation at the workshop. The initial results present the significant impacts of California's climate change ambition unless abatement strategies and technologies are deployed. The C&T Program is a cornerstone of California's strategy to reduce greenhouse gas (GHG) emissions and can be a workhorse that helps drive private sector investment in abatement strategies while protecting consumers and businesses from undue economic impacts and leakage. As such, CCEEB offers the following comments:

1.) Design the program for 2030, 2045 and beyond.
2.) Support and maintain AB 398 (E. Garcia, 2017) cost containment provisions.
3.) Provide clarity on additional abatement strategies and technologies.

2030 and Beyond

CCEEB supports CARB modeling the proposed changes with California's carbon neutrality mandate at the forefront. This will provide a long-term investment signal for the market and drive facility level investments to reduce GHGs. We believe certainty in the market design and rules long-term are a fundamental need and as the C&T program is examined in the context of AB 1279 (Muratsuchi, 2022), CARB can provide the framework necessary to ensure market stability and durability into the future.

Certainty and stability will underpin the significant private capital necessary to build the physical infrastructure required to deliver decarbonized energy and fuels to zero-emission and low-carbon end-uses across California's economy in a short window of time relative to the scale of buildout. C&T is a necessary and supporting tool that helps drive investment in abatement strategies while providing clarity and flexibility for compliance entities to manage their portfolio of facilities and deploy abatement strategies at the appropriate time based on the price of carbon and technological feasibility of the project. As such, CCEEB urges CARB to continue looking at C&T as a fundamental carbon policy beyond 2030 as there will be a need to manage emissions and removals well after we have achieved carbon neutrality. CCEEB continues to support a well-designed C&T as the primary regulatory tool for achieving California's climate ambition.

The current market rules have been in operation for over a decade. CCEEB has concerns about the presentation questions that imply a post 2030 program that does not build on this legacy. The stability of the C&T program requires long term signals, beyond 2030, to underpin the significant compliance entity and private investments to achieve our interim and long-term climate change goals.

Reinforce and Support AB 398 Cost-Containment

The durability and efficacy of C&T relies on political and legal support. This support is embodied in the bipartisan supermajority reauthorization of AB 398, which is centered on cost-containment and policy to prevent leakage. These provisions of AB 398 further reinforce the cost-effectiveness language in California's landmark climate change policy, AB 32 (Nunez, 2006).

Specifically, industry and ratepayer allocations are a critical component of minimizing the cost impacts to Californians and managing the competitive issues resulting from the importation of goods and services from jurisdictions without carbon controls. CCEEB believes the climate credit that customers (residential, and a segment of commercial) receive as a result of the EDU allocated allowances is an important cost containment mechanism. Without this cost containment mechanism, most residents in California would suffer a disproportionate financial burden of the state's climate policies, especially low-income households, and residents in disadvantaged communities.

The presentation asked a series of questions related to holding limits. CCEEB suggests avoiding any changes to holding limits, banking, or other market fundamentals. The ambition necessary for this program to meet the AB 1279 mandate will require a substantial reduction in auction or allocated allowances. Adjusting the cap to achieve carbon neutrality and increased ambition in 2030, will reduce the liquidity of the market, and it is unclear, based on the questions posed by the presentation, what if any, problems changes to holding limits, banking, and other design features of the C&T program will solve.

CCEEB opposes any changes to banking rules or holding limits currently. The current market rules work and the banking leads to early emission reductions[1]. Current banking provisions are a function of the current cap decline factor, revisiting them now is not needed with the aggressiveness of the future goal.

High-quality compliance grade offsets provide a critical cost containment function to the cap-and-trade program. In 2026, the offset limitation will be increased to 6% and should provide additional cost containment to the program. As we look beyond 2030, CARB should consider increasing the utilization of offsets as a backstop to prevent leakage if compliance and mitigation costs are not cost-effective.

As a principle, CCEEB continues to support broad-based linkage to sizable multijurisdictional markets and economies that equal or exceed California's. With the possibility of Washington amending their program to support linkage and New York designing a linkable program, we support linking to programs with demonstrated stability that do not unduly increase the costs of compliance in California while reducing the cost of compliance in their jurisdictions. If linkage is not possible, CCEEB believes that other

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[1] Leard, Benjamin. 2013. "The Welfare Effects of Allowance Banking in Emissions Trading Programs." Environmental and Resource Economics 55: 175-197

cost-containments measures must be adopted to soften the economic impact of this regulation and limit leakage of jobs and emissions.

Marginal Abatement Cost Curve

We appreciate the UC Davis modeling that was presented at the November workshop. However, to fully evaluate the scenarios, consider responses to the questions posed in the presentation, and consider what scenario should be selected, requires significant additional analysis. The UC Davis modeling shows what happens without deployment of abatement strategies, but we should consider a range of dates where these projects/technologies come online, and at what costs, to demonstrate the benefits C&T can provide in mitigating the cost impacts of achieving GHG reductions through market forces. These abatement policies and strategies are part of the 2022 Scoping Plan, so not including them in this model means CARB is not considering its own primary climate policy. The UC Davis model should be updated to include all the abatement policies and strategies that are in the 2022 Scoping Plan as a direct comparison to the presented results.

CCEEB requests that CARB provide more clarity on the assumed costs of abatement strategies included in the 2022 Scoping Plan and their potential impacts on the C&T modeling. We believe transparency is important in balancing any proposed changes against the feasibility of implementing these abatement strategies. California's challenging permitting requirements are an impediment to the pace and scale of infrastructure and technology deployment to mitigate and reduce GHG emissions. As such, the assumed marginal cost of abatement for different technologies may provide additional transparency on when compliance entities and developers should begin planning to leverage the strength of C&T to support the underlying economics of a project that reduces emissions. Transparency may help drive earlier planning and deployment of strategies which will help California achieve emission reductions and avoid the political risks to the program if it is at the price ceiling.

Conclusion

We appreciate the workshop discussion and will continue to collaborate with our members to better understand the impact of the suggested changes and questions CARB has raised. California's leadership through the Cap-and-Trade program and the program benefits, require a deliberative and intentional approach to these amendments with specific consideration to the 2045 carbon neutrality goal, the cap, leakage, and cost-containment. Evaluation of how this program should be tailored to meet our near-term and long-term goals brings to the forefront the need for certainty that the program will continue beyond 2030. Additionally, there is a fundamental requirement that California's climate programs be cost-effective and technologically feasible to avoid undue impacts to households and businesses.

Thank you for your consideration of our comments. We look forward to discussing them or answering any questions you may have at your convenience. Please contact me or Mikhael Skvarla, CCEEB's governmental relations representative at CA Lobby at (916) 203-0443 should you have any questions or comments.

Sincerely,

Tim Carmichael

Tim Carmichael
President/CEO