Cap and Trade Handout

Prepared for Joint CARB/EJAC Meeting on September 1, 2022

Historical Context

California's cap and trade program has had a fraught and politically contentious history since AB 32 was signed into law in 2006. Here is a high-level summary of key moments in the program to-date:

- 2010 - First regulation adopted, to take effect in 2012. Environmental justice groups sue CARB, and the court finds that CARB did not adequately consider alternatives.
- 2012 - CARB updates the regulation to allow for linkage to Quebec. Further technical changes were adopted in 2013, 2014, and 2018; CARB linked with Ontario's program in 2016.
- 2018 - CARB finalized a rulemaking to implement AB 398 (E. Garcia, 2017), which extended the program to 2030.
    - Several key changes included:
        - Established a price ceiling for allowances, and two price containment points, as well as set up automatic transfers of unsold allowances into the APCR.
        - Directed CARB to evaluate and address oversupply concerns, and establish allowance banking rules that discourage speculation, avoid financial windfalls and consider the impact on complying entities and volatility in the market.
        - Established offset limits, and directed at least half to be credits generated from projects that provide direct environmental benefits in California. Established the Compliance Offsets Protocol Task Force to consider how to increase offset projects in the state.
        - **Established the Independent Emissions Market Advisory Committee to meet and report on the environmental and economic performance of the cap and trade regulation and other relevant climate policies.**
        - Directed CARB to set industry assistance factors to those used in the 2015-2017 compliance period, which translates to many industries at low leakage risk getting 100% free allowance allocations
        - Defined cap-and-trade as the primary control mechanism over refinery emissions, prohibiting air districts from adopting emissions reductions rules.
        - Other technical and reporting changes.
    - In response to critiques of those changes, CARB directed staff, through the Executive Officer, in the resolution to do the following:
        - **Quantify and report to the Board, no later than December 31, 2021, the volume of unused allowances from 2013 through 2020, including those in private accounts, and the potential of those unused allowances to hinder the ability of the program to help achieve the 2030 target.**
        - **Monitor the cost containment provisions of the program, including the placement of the reserve tiers and price ceiling, and to propose technical adjustments through future rulemakings if necessary to strengthen the cost containment features of the program.**
        - **Deliver an annual report to the Board on the program, including information on allowance prices and compliance rates.**

- **Assess the impacts of the climate change program on disadvantaged communities.**

- 2020 - The Legislature considers adding language to the budget trailer bill requiring CARB to do a rulemaking to address allowance oversupply, as well as other ongoing concerns about the program. In response, California Environmental Protection Agency Secretary Blumenfeld wrote a letter to the Legislature, committing to work with CARB leadership to ensure a comprehensive review of the program as a part of the 2022 Scoping Plan process. That review would include:
  - **The extent to which the state's climate strategy should rely on the cap-and-trade program reductions relative to other approaches.**
  - **An evaluation of potential changes to the cap-and-trade program that may be necessary to address the long-term economic and emissions projections.**
  - **An identification of areas where new legislation could further the successful implementation of California's climate strategy.**

Current Concerns

This Scoping Plan is a critical touchpoint for the cap and trade program. As California looks to reach increasingly ambitious targets, the Scoping Plan provides critical guidance to ensure those targets are attainable in the most equitable and strategic manner possible.

The primary concern is that CARB will overly rely on cap and trade to cover the projected "gap" in emissions reductions from other programs - without evidence it will deliver that level of reductions - which delays potential action to strengthen those other programs and explore new programs.

Further, as some experts continue to demonstrate that the prices are too low - and that the number of allowances and credits in accounts are too high - to deliver the reductions assumed in the last Scoping Plan, *there is significant question of whether cap and trade is capable of delivering the amount of reductions expected in the 2017 Scoping Plan.*

These points mean that the degree to which CARB assumes reductions from the cap and trade program has significant implications for whether California will meet the emission reduction targets established in statute. Despite substantial evidence showing that the program is not on track to meet those goals since its last regulatory review in 2017; guidance from a 2018 CARB Board Resolution, multiple legislative oversight hearings, and the IEMAC; and a promise from the outgoing Secretary of CalEPA, CARB has not reviewed the program for consistency with its 2030 climate target.

Ask: for CARB to decrease the percentage of reductions expected by Cap and Trade in the Scoping Plan, and to address outstanding concerns in a rulemaking before the next compliance period.