Some Further Thoughts on C&T Allowance Supply

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I was going to do a one-slide presentation, but....
Drivers of allowance “oversupply” or “undersupply “

• To Dallas’s list add (or maybe just highlight) exogenous economic activity
  – The energy intensity of California’s economy is clearly falling, but energy use is NOT decoupled from economic fluctuations
  – Macroeconomic uncertainty is major driver of BAU uncertainty in GHGs
Huge uncertainty in BAU emissions

Net Emissions and Abatement Supply 2018-2030

With Currently Planned APCR

BAU net emissions are (2018-2030) BAU emissions less unused allowances not in reserves
Very little *predictable* abatement supply elasticity

**Net Emissions and Abatement Supply 2018-2030**

*With Currently Planned APCR*

BAU net emissions are (2018-2030) BAU emissions less unused allowances not in reserves.
Result: Extreme Allowance Prices

• Absent price collars, any fixed emissions cap on GHGs is likely to result in very high or very low prices
  (see https://energyathaas.wordpress.com/2016/08/15/fixing-a-major-flaw-in-cap-and-trade/)

• Innovation isn’t likely to change that
  (see https://energyathaas.wordpress.com/2018/04/02/cap-and-trade-and-innovation/)
What will adjusting supply or “removing the overhang” do?

• Allowance price is a weighted average of potential allowance value in the future
  – Potential market outcomes
  – Potential political interventions

• Adjusting supply
  – Re-weights probabilities of floor/ceiling
  – Changes perceived probabilities of later political intervention
Policy Implication

• Focus on floor and ceiling that are
  – Both politically credible
  – Both environmentally satisfactory

• Recognize that
  – California’s primary contribution won’t be from hitting a specific number on measured GHGs
  – It will be from creating scientific, policy and process knowledge that the whole world will benefit from
Thank You!

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