

# BerkeleyHaas

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## Some Further Thoughts on C&T Allowance Supply

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# I was going to do a one-slide presentation, but....

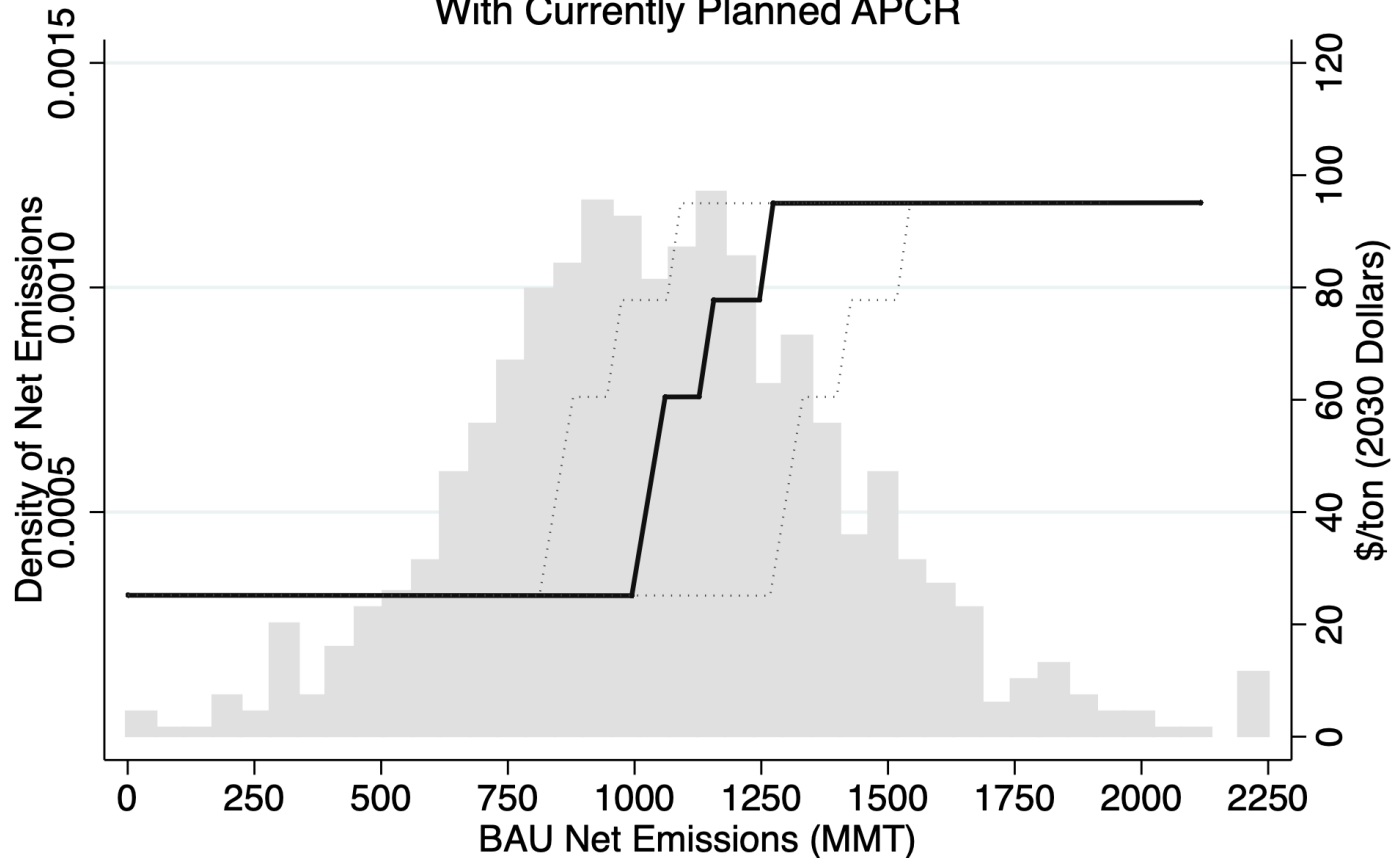


# Drivers of allowance “oversupply” or “undersupply”

- 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

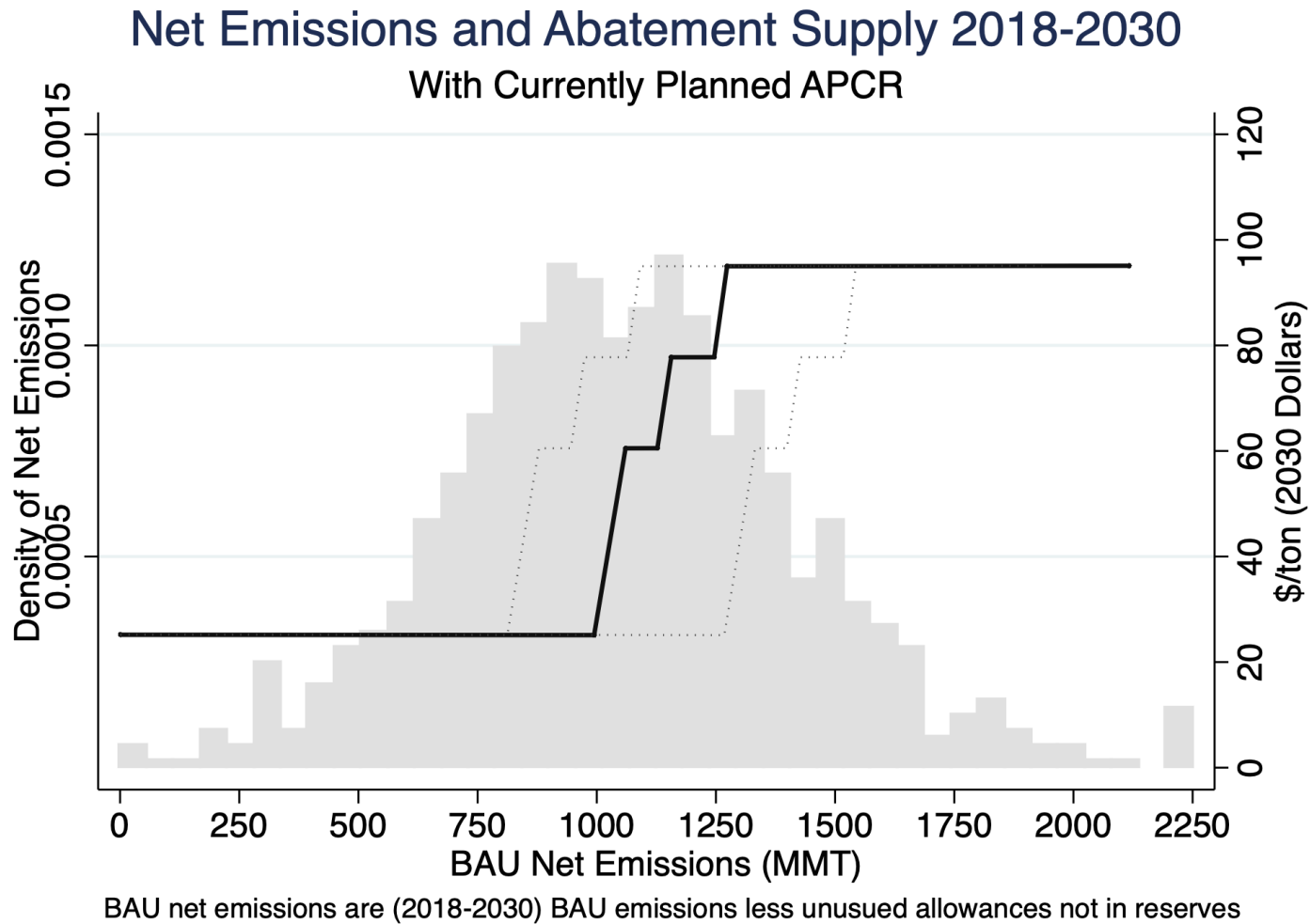
# Huge uncertainty in BAU emissions

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



# 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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