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8 May 2024

IETA Comments: CARB Workshop on Potential Amendments to California Cap-and-Trade Program

The **International Emissions Trading Association** (IETA) welcomes this opportunity to provide brief input on potential amendments to the California cap-and-trade program presented at the California Air Resources Board (CARB) workshop on 23 April 2024.

Holding Limits: IETA supports CARB's proposed approach to maintain the current holding limit equation, as we caution against considerations that would unnecessarily reduce compliance flexibility awarded to regulated facilities.

Compliance Periods:

- Any changes to the compliance period length must be clearly communicated well in advance of implementation to ensure regulated entities have adequate time to provide feedback and adjust their positions.
- While not explicitly part of the rulemaking, IETA strongly recommends that alignment with current and future linkage partners be a key consideration while exploring potential changes to future compliance periods.
- We see merits in maintaining the well-established and familiar three (3) year compliance cycle, which allows for flexibility and cost containment. That said, we also recognize potential benefits that shorter compliance periods offer, including providing a more stable price dynamic and safeguards against market fluctuations. We encourage CARB to conduct further impact assessments with stakeholder (and linkage partner) engagement on future compliance period optionality over the coming months.
- While IETA does not yet take a firm stance on the direction that CARB should take related to compliance period changes, we do oppose Option 1 as presented at the workshop. During interim years, demand for allowances to be retired or moved into compliance accounts is low due to minimal compliance obligation requirements. If the interim period is extended further, it would likely see inflated reported banking statistics as general market participants would continue holding allowances until demand rises during the compliance year. The "artificially" inflated banking statistics could trigger more political pressures on regulators to address the surplus.

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Corporate Association Group (CAG) treatment: CARB may want to consider providing automatic exemptions for individuals with account viewing agent roles only (i.e., no primary or alternative account representative roles for any account, and thus no ability to transfer allowances). This option could have merits, particularly for entities employing fund administrators. Further clarity on the proposed exemption process will be required. Specifically, whether the exemption is automatic or requires an application. If an application is necessary, fundamental questions will have to be addressed (e.g., who is responsible for application submittal - the primary/alternate account representative or the entity/individual creating the association?). In addition, if CARB identifies an association between two or more accounts, sufficient time should be given to the entities to respond before enforcing any allowance sales.

2031 Transition Discontinuity: IETA acknowledges the modelled discontinuity in program budgets from 2030 to 2031, and the impacts it could have on holding limits, cap adjustment factors, and GGRF revenues. There are several ways to address this issue without diluting pre-2030 program ambition. For example, CARB could de-link holding limits and cap adjustment factors from the adjusted budgets allowing for a smoother transition in these metrics. Alternatively, CARB could front-load reductions to budgets and remove fewer allowances from late decade budgets in order to smooth out budgets from 2025-2031+. Regardless of what CARB decides, IETA strongly recommends that CARB maintains the 265mm reduction to 2025-2030 budgets proposed in the SRIA.

Offset Considerations: IETA recognizes the key role that offsets play in ensuring cost-effectiveness in California's cap-and-trade program. Compliance offsets encourage emissions reductions and spur innovation in non-covered sectors. In general, IETA supports updates to emissions factors and changes to align offsets with the latest science. We support allowing for offset projects to make baseline adjustments when a later verification finds an error greater than 5% or when an error is discovered in calculations of carbon estimates; this welcomed clarification allows a project to adapt based on the latest and best information while providing stakeholders confidence that the project can continue credit generation into the future. We note that the initial offset-related concepts, shared at the workshop, were presented in minimal detail therefore making it difficult to provide specific comments. IETA and the broader industry look forward to providing future feedback once more specific clarification proposals have been released.

Allowance Removals to Achieve 2030 Target: While not raised during the workshop, IETA reiterates our position that a large majority, if not all, of allowance removals required to achieve the 2030 target should come directly from the auction/allocation accounts rather than the Allowance Price Containment Reserve (APCR) and ceiling cost-containment accounts. IETA and the broader business community eagerly await more clarification on CARB's latest thoughts regarding the pools from which allowances will be removed to achieve the 48% target.

Cap-and-Trade Beyond 2030: With caps declining to net zero emissions, the cap-and-trade program should be extended through at least 2045. Over the last year, IETA has provided both legal rationale and evidence in support of program extension. Beyond 2030, IETA holds that the program must be designed to continue allowing high-quality offsets to serve as an important flexibility mechanism for covered entities.

If you have questions about IETA's input, please contact Joey Hoekstra at hoekstra@ieta.org.