Comments of the Western Power Trading Forum
to the California Air Resources Board
on Potential Changes to the Cap-and -Trade Program

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The Western Power Trading Forum[1] (WPTF) appreciates the opportunity to provide input to the California Air Resources Board (CARB) on its consideration of amendments to the cap-and-trade program. Our comments below address some of the issues raised at the workshop on April 23rd.

Allowance Budget Trajectory

Staff propose to remove 265 million allowances from the 2025 to 2030 program budgets to achieve a 48% reduction in greenhouse gas (GHG) emissions below 1990 levels by 2030. Staff also propose to set 2031-2045 budgets to achieve the Scoping Plan's 2045 GHG target. WPTF offers no comment on the cumulative budgets for the pre and post 2030 period. However, we are concerned that the discontinuity in the allowance supply between 2030 and 2031 (a significant increase) would create unnecessary allowance price volatility. For this reason, we recommend that staff revisit the proposed allowance budget trajectory with a view to smoothing the 2030-2031 transition so as to minimize price volatility to the extent possible.

Changes to Corporate Association Provisions

WPTF understands that staff's proposed additions to the Corporate Association Group (CAG) provisions are intended to prevent coordinated behavior between entities participating in the market, particularly voluntarily associated entities that do not have compliance obligations. While we support this general intent, we are concerned that as proposed, the new provisions could inadvertently constrain the ability of market participants, including some covered entities, to legitimately access allowances, beyond what is intended by these new provisions.

- For instance, CAG #1 assumes information sharing schemes that do not exist for many small program participants that may share direct access to their tracking system with their consultants or advisors to ensure they get the best program guidance.
- CAG2 would create a corporate association automatically for Commodity Trading Advisors (CTAs) despite CTAs being legally bound to *only* advise clients on futures trading, and to maintain a firewall between any proprietary trading operations and client advisory services.
- The term 'selection authority' in CAG 3 could potentially trigger a corporate association where a level of control of an entity's allowance market position doesn't exist.

For these reasons, WPTF urges staff to consider and clearly define conditions that would trigger a corporate association under the new provisions, Additionally, we recommend that staff provide a clear exemption to the corporate association triggers for relationships that do not enable an entity to exert decision-making authority or control. The CAG #1 concept notes that consultants could be exempted if the entity demonstrates that their consultant only provides advisory services and does not have decision-making authority over its market position. A similar exemption should be extended to CAG 3. For CAG2, an exemption should be created for CTAs that do not "direct" transactions for its clients per CFTC Rule 4.10(f), but only advise clients.

Further, we agree that a sudden change in these provisions resulting in a release of allowances from holding accounts could also contribute to allowance price volatility. WPTF supports a delay in the implementation of the rules but suggests that staff evaluate the timing of implementation in light of

[1] WPTF is a diverse organization comprising power marketers, generators, investment banks, public utilities and energy service providers, whose common interest is the development of competitive electricity markets in the West. WPTF has over 100 members participating in power markets within California and elsewhere across the United States.

the overall budget trajectory and impacts of the discontinuities in the allowance supply noted above.

Holding Limits

In our previous comments submitted in response to the November 16 joint workshop in Quebec, WPTF requested that CARB modify the holding limit formula. Specifically, we recommended adjusting one of the formula's fixed parameters for the pre-2030 period so that year on year reduction in the holding limits would decline at a lower rate.

Holding limits are an important mechanism for covered entities to plan for compliance and are important for cost containment. The fact that staff's proposed reduction in program budgets would reduce the aggregated holding of allowances by over 20 million tons in 2025 emphasizes the need to evaluate potential changes to the holding limit formula. WPTF respectively reiterates our request that staff evaluate options for adjusting the holding limit formula and provide a proposal to stakeholders at a future meeting.

Compliance Period Lengths

The temporal flexibility provided by multi-year compliance periods is also an important cost containment feature. In general, WPTF considers longer compliance periods to be preferable to shorter, as this provides covered entities with better ability to manage fluctuations in allowance prices over time. Additionally, consistent duration for compliance periods would provide additional regulatory certainty for entities in planning for compliance retirements over time. For this reason, WPTF supports option 1 (a four-year compliance period for 2027-2030 and five-year periods thereafter.)