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May 8, 2024

Cap-and-Trade Workshop
California Air Resources Board
1001 I Street,
Sacramento, CA 95814

Submitted via the Workshop Comment Submittal Form
and by email to ctworkshop@arb.ca.gov

Re: Comments on the April 23, 2024, CARB Public Workshop: Potential Amendments to the Cap-and-Trade Regulation

The Western States Petroleum Association (WSPA) appreciates the opportunity to comment on the California Air Resources Board's (CARB) Cap-and-Trade program public workshop hosted on April 23, 2024.¹ WSPA is a non-profit trade association that represents companies that import and export, produce, refine, transport and market petroleum, petroleum products, natural gas and other energy supplies in California and four other western states, and has been an active participant in air quality planning issues for over 30 years.

WSPA supports CARB's objective to adopt a 2030 reduction target for the Cap-and-Trade program that can maintain a steady and stable carbon market in California. Market-based approaches like the Cap-and-Trade program will help California make significant progress towards its emissions reduction goals while ensuring that these reductions are more cost-effective. However, WSPA reiterates, as noted in comment letters for previous workshops, that CARB's proposed updates to the Cap-and-Trade program must be consistent with requirements under Assembly Bill (AB) 32, AB 398, and Senate Bill (SB) 32; should integrate carbon-negative technologies; and should limit cost impacts, consistent with other legislative programs seeking to mitigate consumer burdens related to petroleum and alternative transportation fuels.

CARB's authority to adopt and implement the Cap-and-Trade program is governed by AB 32, SB 32, and AB 398. AB 32, the California Global Warming Solutions Act of 2006, sets ambitious greenhouse gas (GHG) emission reduction goals that will continue to position the State as a global leader in green technologies. In carrying out these goals, AB 32 directs CARB to adopt regulations to achieve the maximum technologically feasible GHG emission reductions, but places key limits on CARB's broad authority to regulate emissions, requiring CARB to minimize the leakage potential of the actions taken, ensure that the emissions reductions are technologically feasible *and* cost-effective, and ensure that any reductions achieved are real, permanent, quantifiable, verifiable, and enforceable.² SB 32, the California Global Warming Solutions Act of 2016, builds on and expands the requirements in AB 32, but reiterates that reduction measures must be technologically feasible and cost-effective.³ AB 398 outlines specific requirements for the Cap-and-Trade program through 2030 intended to limit the program's cost impacts for consumers and industry, including a price ceiling, price containment points, and industry assistance factors.⁴ In particular, in setting a price ceiling, CARB must consider any

¹ CARB. 2024. Cap-and-Trade Program Workshop. Available at: https://ww2.arb.ca.gov/sites/default/files/2024-04/nc-CapTradeWorkshop_Apr232024_1.pdf. Accessed: May 2024.

² AB 32. Available at: https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=200520060AB32. Accessed: May 2024.

³ California Legislative Information. Senate Bill No. 32. Available at: [Bill Text - SB-32 California Global Warming Solutions Act of 2006: emissions limit](#). Accessed: May 2024.

⁴ California Legislative Information. Assembly Bill No. 398. Available at: [Bill Text - AB-398 California Global Warming Solutions Act of 2006: market-based compliance mechanisms: fire prevention fees: sales and use tax manufacturing exemption](#). Accessed: May 2024.

adverse impacts on businesses, 2020 tier prices of the allowance price containment reserve, leakage potential, the auction reserve price, and the cost per metric ton of greenhouse gas emissions reductions, among other factors. Therefore, in amending the Cap-and-Trade program, CARB is statutorily bound to carefully consider these factors and to account for these legislative priorities. CARB's analysis to date has failed to appropriately quantify and assess potential consumer impacts or leakage risks under various proposed update scenarios, in violation of CARB's statutory mandate.

CARB has also not taken sufficient action to integrate carbon-negative technologies into the Cap-and-Trade program. WSPA has repeatedly emphasized that CARB must incorporate mechanisms within the Cap-and-Trade program to support the successful development and deployment of carbon dioxide removal (CDR) technology, including carbon capture, utilization, and storage (CCUS). As CARB itself has recognized, these technologies are necessary to achieve the State's decarbonization objectives. In the 2022 Scoping Plan for Achieving Carbon Neutrality, CARB found that it will not be possible to meet the 2045 carbon neutrality target without the deployment at scale of CDR and CCUS.⁵ Indeed, the 2022 Scoping Plan Update set targets for 20 million metric tons of carbon dioxide equivalents (MMT CO_2e) removal and capture by 2030 and 100 MMT CO_2e by 2045. However, these targets are currently infeasible due to cost and regulatory barriers that delay even pilot projects. To address these barriers, CARB must incentivize research and investment to support deployment of CCUS and CDR technologies at the scales and expedited timelines required to meet the State's climate goals. Incorporating such mechanisms into the Cap-and-Trade program will make significant progress towards easing existing burdens and increase access to these critical technologies.

CARB has also failed to adequately assess how the proposed Cap-and-Trade Regulation amendments align with other legislative programs seeking to minimize consumer burdens associated with transportation fuels. SB X1-2 (2023) directs State agencies to evaluate measures to ensure that petroleum and alternative transportation fuels are adequate, affordable, reliable, and equitable. According to the California Energy Commission, the existing Cap-and-Trade Regulation and the Low Carbon Fuels Standard (LCFS) together add approximately 42 cents per gallon to the cost of gasoline.⁶ CARB must therefore consider impacts to gasoline costs in updating the Cap-and-Trade Regulation, consistent with this legislative mandate.

Given these already-significant burdens, CARB's proposed amendments to the Cap-and-Trade program are likely to have an impact on transportation fuel supply and costs. In particular, WSPA is concerned that the proposed amendments to the Regulation could exacerbate existing impacts by further compromising the supply reliability of critical transportation fuels, leading to increased energy costs and possibly further burdening California drivers. In enacting SB X1-2, the California legislature recognized the importance of ongoing supply constraints for transportation fuels, leading energy affordability to be a pressing priority for many Californians. Consistent with this clear legislative priority, CARB must ensure that its proposed Cap-and-Trade Regulation amendments do not unreasonably increase California fuel costs.

In response to the April 23, 2024, workshop, WSPA offers the following comments:

⁵ CARB. 2022 Scoping Plan for Achieving Carbon Neutrality. Available at: <https://ww2.arb.ca.gov/sites/default/files/2023-04/2022-sp.pdf>. Accessed: May 2024.

⁶ CEC. 2023. California Oil Refinery Cost Disclosure Act Monthly Report: Aggregated Data Reported. July. Available at: <https://www.energy.ca.gov/data-reports/energy-almanac/californias-petroleum-market/california-oil-refinery-cost-disclosure>. Accessed: May 2024.

1. CARB should not base allocations for 2025-2030 on hypothetical reductions from the 2021 to 2024 budgets.

CARB presented three scenarios it has considered that would adjust the 2025-2030 annual allowance budgets based on specific GHG reduction targets (40%, 48%, or 55% from 1990 levels by 2030).⁷ As part of these adjustments, CARB included a “correction” to the share of covered entities and reduced the 2021 through 2030 allowance budget by a total of 13.7 MMTCO_{2e}.

In addition, CARB’s preferred scenario, a 48% GHG reduction target in 2030, means the 2021 through 2030 allowance budget is reduced by an additional 265 MMTCO_{2e}, for a total of 278 MMTCO_{2e} allowances removed with all of these allowances proposed to be removed from the 2025 through 2030 budget. While WSPA agrees with CARB that the Cap-and-Trade program is a cumulative emissions reduction program, this proposal amounts to a significant step change to the allowance budgets going forward. When comparing the 2018 Cap-and-Trade Regulation allowance budgets to those presented as CARB’s preferred 48% in 2030 case, the change results in a decrease of available allowances by 31% in 2030.

This 31% reduction in 2030 is significant and would place an unnecessary burden on the California economy to absorb this change over such a short period of time.

Adopting more aggressive targets is particularly unreasonable, given ongoing challenges in deploying CCUS and CDR. Deploying CDR and CCUS technologies is currently infeasible at scale due to cost, technology readiness, and permitting barriers that delay even pilot projects built into the 2022 Scoping Plan Update that informed the 48% target. While CARB is in the process of developing a CCUS and CDR strategy in accordance with SB 905, CARB’s progress on this strategy has been delayed, and these delays will leave 40 MMTCO_{2e} of assumed reductions by 2030 without a framework to achieve the reductions. Post-2030, the 2022 Scoping Plan Update again includes significant emission reductions attributable to CCUS and CDR. However, without a framework to achieve the reductions, regulated parties and the economy should not bear the cost of these gaps. Without these technologies being available and readily deployable, accelerating reduction targets and increasing stringency of the caps will result in infeasible requirements, in conflict with CARB’s statutory duty under AB 32 and SB 32 to ensure that reduction measures are both cost-effective and technologically feasible.

Further, as WSPA has emphasized in a previous comment letter,⁸ adjusting the 2030 emission target based on actual achieved reductions in previous years will severely impact the stability of the Cap-and-Trade program and could harm long-term decarbonization planning efforts. CARB’s proposed methodology would create a disincentive for companies to take early action to maximize their GHG emissions reductions and set a concerning precedent that would undermine confidence in the Cap-and-Trade program by retroactively manipulating the allowance market. This is contrary to the existing Cap-and-Trade framework, which recognizes early actions and is built around encouraging companies to undertake longer-term, higher-capital investments that are necessary to achieve the State’s long-term carbon

⁷ CARB. 2024. Cap-and-Trade Program Workshop. Available at: https://ww2.arb.ca.gov/sites/default/files/2024-04/nc-CapTradeWorkshop_Apr232024_1.pdf. Accessed: May 2024.

⁸ WSPA. 2023. WSPA Comments on 10-05-2023 Cap-and-Trade Workshop. Available at: https://ww2.arb.ca.gov/system/files/webform/public_comments/6456/WSPA%20Cap-and-Trade%20October%202023%20Workshop%20Comments%2010-26-2023.pdf. Accessed: May 2024.

neutrality goals. This is also contrary to the statutory directive in AB 398 that requires CARB to design regulations to “encourage[] early action to reduce greenhouse gas emissions.”⁹ WSPA urges CARB to reconsider its proposal with the principle to ensure that companies retain sufficient confidence in the predictability of the program so that they invest in early actions that will be essential for long-term compliance.

2. CARB should retain robust allowance banking and address any concerns about market liquidity through monitoring and reporting procedures.

Allowance banking has been an essential part of the Cap-and-Trade program since its inception and has supported a well-functioning market with nearly 100% compliance for regulated entities. Banked allowances provide a strong incentive to regulated entities to take early action to reduce emissions, so that they have more flexibility in the long-term to invest in more extensive decarbonization efforts. As CARB recognized in the April 23 public workshop, allowance banking is also an important cost-containment mechanism, in furtherance of the edicts in AB 32 and SB 32 that CARB ensure that its reduction measures are cost-effective.

CARB is evaluating potential updates to allowance holdings and trading behavior based on concerns about market liquidity. CARB suggested that adjusting the holding limit formula in the context of allowance budget scenarios could address this concern. However, WSPA urges CARB to avoid curtailing holding limits for covered entities as a method of maintaining market liquidity. The holding limit is one of the important cost-containment mechanisms within the program because it encourages early action so that allowances can be banked in anticipation of year-over-year increases in allowance prices. This mechanism serves the purposes of AB 398, which requires CARB to design regulations to “encourage[] early action to reduce greenhouse gas emissions.”¹⁰ Decreasing the number of allowances that can be banked by covered entities would also impact future long-term emission reduction projects. With lower holding limits, industrial facilities will have less flexibility to meet the compliance requirements. WSPA strongly encourages CARB to address concerns about market liquidity due to allowance banking with methods that do not include reducing the holding limit. CARB’s proposal to adjust the current holding limit formula would undermine covered entities’ abilities to achieve cost-effective emission reductions in-line with the program targets, in violation of AB 32 and SB 32.

Rather than limit allowance banking, CARB should instead address market liquidity by updating monitoring and reporting requirements for Voluntarily Associated Entities (VAEs). As WSPA has noted in previous comment letters, the number of VAEs participating in the Cap-and-Trade program has significantly increased in recent years, which raises concerns about their ability to accumulate an outsized proportion of allowances for investment purposes, rather than compliance requirements. Over-participation of VAEs, without appropriate constraints, creates an outsized risk of artificial inflation of allowance prices and restricts market liquidity, since these entities do not need to surrender allowances for compliance. As Slide 15 of CARB’s April 23, 2024, workshop illustrates, a majority of registered market participants are currently VAEs. Rather than limiting allowance banking, CARB should develop tracking and monitoring mechanisms to ensure VAEs’ activities do not disturb market liquidity.

⁹ California Health & Safety Code § 38562(b)(1).

¹⁰ *Ibid*

3. CARB should revise the holding limit formula to reduce market shocks due to the significant reductions proposed in its 2025-2030 Annual Allowance Budget, increasing the holding limits for covered entities to provide additional compliance flexibility.

Under the current Cap-and-Trade program, the maximum number of allowances that can be held in a single year is governed by the holding limit, which is scaled based on the annual allowance budget. CARB is proposing to rapidly decrease annual allowance budgets between 2025 and 2030, in excess of the 2030 48% reduction target in SB 32, as discussed above. These budget decreases will also reduce holding limits under the current calculation methodology.

WSPA encourages CARB to reevaluate the holding limit to provide entities with additional compliance flexibility to meet the aggressive reduction targets in the proposed Cap-and-Trade program revisions. The current holding limit formula would undermine covered entities' abilities to achieve cost-effective emission reductions in-line with the future reduction targets, in violation of CARB's statutory obligation under AB 32 and SB 32. A significant decrease in the holding limit would require all entities to dispose of allowances during a brief period, introducing as many as 20 million allowances into the market in 2025, and causing volatility in allowance prices.¹¹ As projected by the University of California-Davis modeling presented at the November 16, 2023, workshop, future allowance prices could surge towards the price ceiling from 2030 through 2040 under a majority of the modeled scenarios.¹² CARB should be seeking to expand cost-containment mechanisms, including an increase of the holding limit for covered entities.

As noted in the workshop one impact of a reduced annual allowance budget is a reduction to a firm's holding limit. Banking is a fundamental function of the Cap-and-Trade program that provides firms an opportunity to cost effectively reduce emissions. Without the ability to bank a sufficient number of allowances, the costs of the program will be more apparent to the economy. Under CARB's 48% reduction by 2030 scenario, holding limits will be reduced in 2025 through 2030 by 15% assuming California's linked jurisdiction does not implement allowance reduction strategies as well. As noted above, the reduction in the allowance budget is abrupt and does not serve a Cap-and-Trade purpose to provide a steady signal to reduce emissions. To alleviate these concerns, WSPA recommends CARB adjust its 2025 through 2030 holding limit formula to provide additional room for entities to manage their compliance instrument holding accounts. One method CARB should employ is to create a table accompanying the Holding Limit Formula that updates the 2018 Cap-and-Trade Regulation value of 0.025 annually starting in 2025 through 2030. With this table, holding limits for firms would remain as currently expected for the rest of the decade, and reduce the impacts of the proposed annual allowance budget significantly. To facilitate this change, WSPA proposes the following amendment to the Holding Limit Formula for years 2025 through 2030:

$$\text{Holding Limit} = 0.1 \times \text{Base} + \text{HLF} \times (\text{Annual Allowance Budget} - \text{Base})$$

In which:

"Base" equals 25 million metric tons of CO₂e

"Annual Allowance Budget" is the number of allowances issued for the current budget year

¹¹ CARB. 2024. Cap-and-Trade Program Workshop. Available at: https://ww2.arb.ca.gov/sites/default/files/2024-04/nc-CapTradeWorkshop_Apr232024_1.pdf. Accessed: May 2024.

¹² CARB. 2023. Joint Cap-and-Trade Program Workshop. Available at: https://ww2.arb.ca.gov/sites/default/files/2023-11/nc-combinedSlides_Nov162023.pdf. Accessed: May 2024.

“HLF” is the Holding Limit Factor for a corresponding Annual Allowance Budget year

Holding Limit Factor (HLF)	
Calendar Year	HLF
2025	0.027
2026	0.029
2027	0.030
2028	0.032
2029	0.034
2030	0.035

4. CARB should consider the impacts of its proposed changes to the Annual Allowance Budgets on the number of allowances provided for industrial assistance.

WSPA is aware that CARB intends to hold one additional workshop in the coming months to discuss allocations to the industrial sector. Like banking, industrial allocation is a core function of the program to ensure it operates cost effectively. For this expected future workshop, WSPA requests that CARB include an assessment of the impact to the industrial sector were CARB to utilize the 2018 Cap-and-Trade Regulation’s Cap Adjustment Factors for years 2025 through 2030 to apportion allowances for industrial allocation rather than update the adjustment factors for any reduced allowance budget.

5. WSPA strongly opposes eliminating the offsets program or establishing “no-trade zones.”

Consistent with recommendations from the Environmental Justice Advisory Committee, CARB is evaluating potential trading restrictions, including no-trade zones and limitations to the existing offset program. These limitations would conflict with CARB’s statutory mandate under AB 32, SB 32, and AB 398, and would exacerbate price volatility, emissions leakage, and market liquidity issues.

CARB recognizes in its Standardized Regulatory Impact Assessment (“SRIA”) that including trading limits or discontinuing the use of offsets would put “upward pressure on allowance costs” and “exacerbate the potential for emissions leakage.”¹³ CARB further explains that “the compliance offset program has served as an important cost-containment feature of the Program” and “financially supports action to reduce GHG emissions outside of the sectors directly covered by the Cap-and-Trade Program.”¹⁴ Imposing new trading limits or eliminating offsets would conflict with the legislative directives in AB 32, SB 32, and AB 398. These statutes require CARB to achieve “maximum technologically feasible *and cost-effective* greenhouse gas emission reductions,” “minimize leakage,” and consider “overall societal benefits” in implementing this program.¹⁵ As CARB recognizes in its SRIA, eliminating offsets would remove important benefits from other sectors, such as “projects to sustainably manage natural and working lands to increase carbon sequestration, to capture and destroy fugitive emissions from high global warming gases, and to reduce fugitive methane emissions from

¹³ CARB. 2024 Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms 2024 Amendments: Standardized Regulatory Impact Assessment. Available at: [Cap-and-Trade SRIA 2024](#). Accessed: May 2024.

¹⁴ *Ibid.*

¹⁵ California Health & Safety Code §§ 38562(a), (b)(6), (b)(8).

mines and livestock operations.”¹⁶ Further, “[d]iscontinuing the use of any offsets would further limit compliance instruments and put further upward pressure on allowance costs, which increases the emissions leakage risk.”¹⁷ Similarly, trading restrictions would “increas[e] compliance costs for all entities, increas[e] the potential for leakage, and increas[e] economy-wide costs to California consumers,” in violation of CARB’s requirement to ensure that its reduction measures are cost-effective.¹⁸

These revisions would also directly conflict with AB 398’s provisions related to Cap-and-Trade program design. AB 398 gives CARB authority to “adopt a regulation that establishes a system of market-based declining annual *aggregate emissions limits* for sources or categories of sources that emit greenhouse gases.”¹⁹ As CARB explains in its SRIA, “AB 398 does not include any provisions to support new trading limits and any such limits would be inconsistent with an aggregate cap as mentioned in AB 398 and direction on cost-effectiveness.”²⁰ AB 398 plainly encompasses *all* sources of GHG emissions, and does not permit CARB to restrict trading among certain categories of sources. Importantly, the California legislature considered *and rejected* an amendment that would have included no-trade zones or declining caps for facilities where “emissions contribute to a cumulative pollution burden that creates a significant health impact.”²¹ CARB cannot circumvent this legislative action by adopting no-trade zones.

Similarly, AB 398 recognizes the continued importance of the offset program and sets specific program guidelines intended to *increase* offset projects in the State.²² Further, AB 398 establishes specific offset limits of 4 percent between 2021 and 2025, and 6 percent between 2026 and 2030.²³ Eliminating the offset program would conflict with this clear statutory directive, which contemplates expanded use of offsets between 2026 and 2030. The Offset Program remains an integral compliance option that increases cost-effectiveness within the Cap-and-Trade program and diversifies strategies for decarbonization. Rather than *eliminating* this program, WSPA encourages CARB to retain its proposal to increase the offset usage limit to 6% in 2026 and to further investigate alternative offset protocols and expand the program. The offset program will be increasingly important for maintaining the efficacy and cost-effectiveness of the program. AB 398 mandates that CARB increase the offset limit to 6 percent, and further contemplates that covered entities will expand their reliance on offsets. In accordance with this statutory mandate, CARB must increase the offset limit rather than eliminate the offset program.

Any policy that incorporates no trading provisions or allowance caps would undermine the efficiency of Cap-and-Trade as a market-based program by reducing cost-effectiveness and market liquidity, limiting compliance options, and increasing allowance costs and risk of emissions leakage, in direct conflict with CARB’s statutory directives in AB 32, SB 32, and the program design of AB 398.

¹⁶ CARB. 2024 Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms 2024 Amendments: Standardized Regulatory Impact Assessment. Page 19 Available at: https://ww2.arb.ca.gov/sites/default/files/2024-04/nc-Cap-and-Trade_SRIA2024.pdf. Accessed May 2024.

¹⁷ *Id.* at 17-18.

¹⁸ *Id.* at 20.

¹⁹ California Health & Safety Code § 38562(c) (emphasis added).

²⁰ CARB. 2024 Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms 2024 Amendments: Standardized Regulatory Impact Assessment. Page 17 Available at: https://ww2.arb.ca.gov/sites/default/files/2024-04/nc-Cap-and-Trade_SRIA2024.pdf. Accessed May 2024.

²¹ California Assembly Members Garcia, Holden, and Garcia (Apr. 2017).

²² California Health & Safety Code § 38591.1.

²³ California Health & Safety Code § 38562(c)(2)(E).

6. CARB should retain existing compliance period (CP) schedules.

CARB is considering updates to compliance period (CP) end years in order to align requirements with GHG emission reduction target years.²⁴ Under Option 1, CARB would expand CP6 to four years, ending in 2030, and all subsequent CPs to five years. Under Option 2, CARB would establish two-year compliance periods until 2030 and subsequently alternate two- and three-year periods until 2045. CARB explains that the main objective of proposing a change is to “ensure data reconciliation between linked jurisdictions.” In order to further this objective, CARB must ensure the proposed CP schedules are also consistent with Quebec, since California is also linked to this jurisdiction.

In considering these updates, CARB should recognize that any changes to the existing CP schedules will introduce market volatility and uncertainty to the Cap-and-Trade program. Each option introduces new challenges for covered entities. WSPA encourages CARB to retain existing compliance schedules, but at minimum, urges CARB to consider the following feedback in order to carefully balance and address these challenges.

- **Option 1:** The Option 1 schedule would result in significant compliance obligations due at the end of each period, and may delay emission reductions, therefore hindering progress towards statewide targets. Covered entities would be required to comply with longer compliance periods, which risks significant compliance deficits if a covered entity cannot meet the steep reductions CARB has proposed between 2025 and 2030. CARB’s proposals restricting allowance banking compounds this risk. To address these challenges, CARB should increase the holding limit for covered entities to accommodate this longer compliance period to ensure that covered entities can effectively plan compliance obligations for longer four-year periods. However, the longer compliance periods in Option 1 could also allow for long-term planning and investment. By maintaining longer compliance periods, Option 1 offers a framework that incentivizes continuous improvement in emissions reduction efforts and fosters business practices that are sustainable. Option 1 also provides more regulatory certainty due to longer compliance periods which can help ensure that business operations remain stable. CARB must seek stakeholder feedback to ensure that these benefits are retained while also addressing the compliance challenges associated with longer compliance periods.
- **Option 2:** This includes shorter two-year compliance periods until 2030 and subsequently then alternating two- and three-year compliance periods until 2045. Under this option, compliance obligations are divided into smaller increments, which seeks to ensure continuous reductions by assessing compliance more frequently. However, WSPA is concerned that Option 2’s irregularity between the alternative two- and three-year periods may cause challenges for entities’ planning cycles. Further, the additional reporting periods that Option 2 presents limits entities’ abilities to engage in long-term strategies, such as investments into CCUS and CDR, due to the need to meet earlier compliance deadlines. Shorter compliance periods would also increase the administrative burden and compliance costs for regulated entities. Rapid adjustments or changes in the market could create volatility that could potentially impact investment decisions and overall market stability.

²⁴ CARB. 2024. Cap-and-Trade Program Workshop. Available at: https://ww2.arb.ca.gov/sites/default/files/2024-04/nc-CapTradeWorkshop_Apr232024_1.pdf. Accessed: May 2024.

Given the challenges associated with each proposed option, WSPA recommends that CARB maintain the existing CP schedules. The current three-year CP model provides an appropriate balance between the two proposed options, avoiding the potential negative consequences of either option.

7. WSPA supports the proposed clarification and amendments to forest projects.

WSPA supports CARB's proposed clarifications for revisions regarding forest projects. Including an Offset Project Data Report as an alternative to continue a forest project instead of an automatic termination in instances when carbon stocks fall below the baseline increases program flexibility, provides covered entities with more assurance on the reliability of these compliance options in the long-term, and will generate additional benefits in California, consistent with the legislature's directive in AB 398.

8. WSPA reaffirms the need for carbon negative technologies under Cap-and-Trade to achieve the 2045 target for carbon neutrality under the 2022 Scoping Plan Update.

As WSPA has pointed out in its previous comment letters,^{25,26} CCUS and CDR technologies will be critical to the overall success of the 2022 Scoping Plan Update to achieve carbon neutrality by 2045. Therefore, WSPA recommends that CARB amend the Cap-and-Trade Regulation to include a mechanism for generating additional allowances based on emissions reductions achieved by CDR technology including CCUS. For instance, CARB should consider changes to existing Cap-and-Trade Regulation that are necessary to enable companies to offset their compliance obligations by the amount of CO₂ that is geologically sequestered through CDR (including CCUS) or to generate tradable credits from these actions. Such a mechanism would provide incentive for companies to take on the long-term, costly investments and implementation uncertainty associated with these technologies, while facilitating substantial emissions reductions in future years. CARB has already established a placeholder for such a concept in California Code Regulations title 17 Section 95852(g), and WSPA encourages CARB to finalize this concept.

WSPA continues to urge CARB to utilize the existing market-based regulatory programs – including Cap-and-Trade framework and the corresponding Mandatory Reporting Regulation – to develop a robust CDR program, rather than pursue an additional rulemaking process, such as that proposed under SB 308 (2023), which would require CARB to establish a separate CDR market. As WSPA explained in its August 17, 2023, comment letter,²⁷ the addition of CDR to Cap-and-Trade would provide entities with another tool to achieve the emission reductions necessary to meet the State's climate goals and further develop Cap-and-Trade as an economy-wide emissions reduction program. Creating an additional market when a successful market currently exists would be duplicative and would create an unnecessary compliance obligation secondary to the existing Cap-and-Trade requirements, further burdening emitting entities.

²⁵ WSPA. 2023. WSPA Comments on 6-14-2023 Cap-and-Trade Workshop. Available at: https://carbstage.arb.ca.gov/system/files/webform/public_comments/4411/WSPA%20Cap-and-Trade%20Workshop%20Comment%20Letter%207-7-2023.pdf. Accessed: May 2024.

²⁶ WSPA. 2023. WSPA Comments on 7-27-2023 Cap-and-Trade Workshop. Available at: https://ww2.arb.ca.gov/system/files/webform/public_comments/5326/WSPA%20Cap-and-Trade%20July%202023%20Workshop%20Comments%208-17-2023.pdf. Accessed: May 2024.

²⁷ *Ibid.*

9. WSPA supports the proposed revisions to the Corporate Association Groups (CAG) triggers and recommends the release of the associated allowances in a way that minimizes price volatility while ensuring market liquidity and allowance availability.

CARB's proposed revisions to the CAG triggers would address many of CARB's stated concerns regarding associated entities. WSPA recommends that these changes be implemented no more than one year after these Cap-and-Trade Regulation amendments are approved. Impacted CAGs would then need to manage their account holdings accordingly through approved transactions with other parties. The other alternative, to delay implementation until 2031, would undermine the intended purpose of the proposal by allowing coordinating operations to continue in the coming years and could be harmful to the market due to potential market manipulation concerns and lack of transparency.

Thank you for considering our comments. We would welcome the opportunity to discuss these concerns in more detail. If you have any immediate questions, please feel free to contact me at tderivi@wspa.org. We look forward to working with you on these important issues.

Sincerely,



Tanya DeRivi
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