



**Shell**  
**ENERGY**

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California Air Resources Board (ARB)

Via Upload to [www.arb.ca.gov](http://www.arb.ca.gov)

RE: Comments on April 23 Workshop on Cap-and-Trade Regulation

To the California Air Resources Board:

Shell Energy North America (US), L.P. (“Shell Energy”) markets and trades natural gas, power and environmental products and provides risk management support to wholesale and retail customers throughout North America. Shell Energy is also a covered entity under California’s Cap-and-Trade program. Shell Energy welcomes the opportunity to comment on Potential Amendments to the Cap-and-Trade Regulation, as discussed at the April 23 Workshop.

Shell Energy supports California’s intent to increase the program’s ambition to meet climate goals for 2030 and 2045 by setting a cap trajectory for 2025-2030 that aligns with the 48% reduction goal per the 2022 Scoping Plan. To reiterate past comments, Shell Energy believes affordability is a key pillar of this program and should be a top consideration for the ARB when designing for the next phase of the cap-and-trade program. To promote cost-effectiveness, Shell Energy supports maintaining the volume of allowances currently available in price containment features.

California’s Cap-and-Trade program is an established and predictable regulatory framework that has achieved significant greenhouse gas (GHG) emissions reductions in the state. Shell Energy believes the program has been working as intended in providing a steadily increasing price signal that incentivizes investment in carbon abatement technologies. Shell Energy recommends maintaining the status quo on several design features, including maintaining the three-year compliance period. When the program was first implemented, this length was carefully constructed to balance flexibility with the need to demonstrate compliance on a regular basis.

Regarding the holding limit, Shell Energy believes the holding limit should be increased in the context of declining allowance budgets starting in 2025 and commensurate with the current holding limit schedule for future years. Entities have already purchased 2025-2027 vintage allowances under the assumption that the holding limit would be based on the current cap trajectory. A robust holding limit helps reduce price volatility and increases liquidity as the number of available allowances declines. Shell Energy recommends that both California and Quebec add a factor in the holding limit equation that represents the difference between the current cap and the proposed amended cap for 2025 onward. At a minimum, this adjusted holding limit approach should apply to covered entities.

On slide 10 of the workshop materials and as shown in the SRIA, the ARB is considering a scenario where there is an increase in the annual allowance budget from 2030 to 2031. Shell Energy believes this “kink

upward” would have unintended consequences to include periods of significant price volatility. Minimizing price volatility is crucial to ensure cost-effectiveness. Shell Energy recommends that the ARB smooth the cap trajectory.

Shell Energy agrees with the ARB that offsets “achieve cost-effective emissions reductions” and are “an important cost containment mechanism in the Cap-and-Trade Program with added environmental and other co-benefits”. Additionally, the compliance offset program encourages reductions and innovation in non-covered sectors and helps to minimize price volatility. Offsets will continue to play a key role in ensuring cost-effective compliance in the post-2030 period as well. With the anticipated decline in caps and emissions, Shell urges the ARB to increase the offset usage limit in the post-2030 period so that the quantity that can be surrendered does not decline beyond the 6% limit in 2026 and beyond. Shell Energy supports increasing the offset usage limit over time or at a minimum, reinstating the 8% offset usage limit from AB 32. Further, as mentioned in previous letters, Shell Energy supports Staff updating the offset program protocols based on best available science and information. In particular, Shell Energy supports allowing for forestry 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 clarification is important for the longevity of the project and offsets as a compliance option.

Finally, on the topic of Corporate Association Groups, the ARB proposes a CAG Trigger Concept #1 which would remove the distinction by requiring the disclosure of any individual with knowledge of or access to market position information, and expand the definition of “market position information” to include knowledge of holding limit and purchase limit values. Shell Energy notes that this proposal on its face may have the result of broadly capturing both third parties who merely provide advisory and consulting services, as well as internal employees that provide support services and administration of CITSS accounts but generally do not have the context or understanding of market forwards to fully have “market position information”.

Indeed, the general CAG Trigger proposals warrant further discussion and analysis, as they may have implications that are yet unclear and should have the benefit of thorough evaluation, including an opportunity to review and workshop proposed language before formal submission of the rulemaking package. If the ARB does move forward with adopting its proposals, Shell Energy urges the adoption of clearly defined triggers and exemptions, including exemptions for consultants and advisors, as proposed under Concept #1, and exempting employees who have “tracking system account access but can demonstrate no decision-making ~~or~~ legally binding authority over an entity’s market position.”

Shell Energy appreciates the opportunity to comment and looks forward to further engagement.

Respectfully submitted,



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