



June 21, 2024

California Air Resources Board
1001 I Street
Sacramento, CA 95814

We are pleased to share the accompanying comments to the California Air Resources Board (CARB) in response to the California Public Workshop on Potential Amendments to the Cap-and-Trade Regulation and the Standardized Regulatory Impact Assessment (SRIA).

The comment authors are researchers at Resources for the Future (RFF). RFF is an independent, nonprofit research institution in Washington, DC. Its mission is to improve environmental, energy, and natural resource decisions through impartial economic research and policy engagement. RFF is committed to being the most widely trusted source of research insights and policy solutions leading to a healthy environment and a thriving economy.

Nicholas Roy and Maya Domeshek are Research Associates at RFF. Dallas Burtraw is the Darius Gaskins Senior Fellow at RFF and serves on the California Independent Emissions Market Advisory Committee. These comments are not submitted on behalf of the Committee. While RFF researchers are encouraged to offer their expertise to inform policy decisions, the views expressed here are our own and may differ from those of other RFF experts, its officers, or its directors. RFF does not take positions on specific policy proposals.

Attached is a copy of our recent report “Designing for Uncertainty: Amendments to California’s Cap-and-Trade Market” which was released on May 30, 2024. This report follows multiple years of engagement with CARB’s program review process including an earlier report, “How Would Facility-Specific Emissions Caps Affect the California Carbon Market?” released July 17, 2023, and “Comments on the Joint California-Quebec Workshop: Potential Amendments to the Cap-and-Trade Regulation,” submitted December 15, 2023. Our report highlights the following:

- As CARB considers different allowance budgets, it has primarily been considering tradeoffs between emissions reductions, revenue, and cost containment under uncertainty on the one hand and compliance costs on the other. Our modeling shows that tighter budgets that maintain the Allowance Price Containment Reserve (APCR), such as the 48 percent Target A scenario, can better insulate the program from uncertain price pathways than looser budgets that reduce or eliminate the APCRs (such as 48 percent Target B and C).
- CARB has solicited comment on additional program changes that could help the state meet its goals. Our report examines the impact of an Emissions Containment Reserve (ECR), similar to the ECR present in the Regional Greenhouse Gas Initiative and the one authorized in the Washington program. We find that an ECR would help stabilize prices and revenues and increase emissions reductions when demand for allowances is lower than expected.
- In the SRIA, CARB considers the Environmental Justice Advisory Committee’s (EJAC) suggestion that the state require emissions reductions in disadvantaged communities. We have previously written about Facility Specific Caps, a variation on EJAC’s suggested no-trade zones. In this report, we model the impacts of an adjustment CARB could opt to do when implementing facility-specific caps. We find it has minimal impact on allowance prices while reducing uncertainty about whether

disadvantaged communities will benefit from the program. CARB has access to more detailed data about industrial emitters and could study this option in more detail.

- As California reduces allowance issuance to meet its long-term climate goals, it can reduce free allocation in proportion to overall allowance issuance so that its Greenhouse Gas Reduction Fund (GGRF) share of revenue is maintained. Additionally, adjusting the program design so that free allocation is always proportional to allowance issuance, instead of fixed, would insulate the GGRF from budget shocks if fewer allowances are sold than expected.

In addition to the report, we wanted to provide feedback specific to the SRIA and the most recent workshops CARB has conducted.

In the SRIA, CARB has selected three scenarios with varying levels of APCR allowance reserves and auction supplies. Implicit in these different scenarios are different cumulative allowance supplies due to APCR allowances only being available at high allowance prices. However, CARB states that scenarios A, B, and C in the SRIA would all have the same price path between the floor and APCR trigger price. This appears to contradict the decisions of allowance supply CARB is making and further modeling that resolves this contradiction would be useful for evaluating different revenues, emissions, and price outcomes from the decisions CARB is making.

In the most recent workshop, CARB has shown examples of policy decisions under the SRIA scenario B. Including scenarios A and C in future workshops would also assist in better understanding the decisions CARB is making in its comprehensive rulemaking process. Showing other budgets (40 percent and 55 percent target and budget scenarios) in 2023 workshops helped those engaged with CARB rulemaking understand the landscape of amendments the agency is considering. CARB narrowed to the 48 percent target scenario in the SRIA due to macroeconomic impacts. However, the narrowing to the SRIA option B that was shown in the recent workshop does not have the same analytical justification. It would be helpful to show the three SRIA options (A, B, and C) in future workshops to better illustrate the trade-offs of stringency, revenues, and reductions when opting for lower price path scenarios. Our report evaluates differences across SRIA scenarios. CARB can replicate this approach with its own assumptions, modeling capacity, and data to inform stakeholders of the impacts of the choices it is making.

We hope that this report and these comments will serve as a helpful resource to CARB as it continues its deliberations. If you have any questions or would like additional information, please contact Nicholas Roy at Roy@rff.org.

Sincerely,

Nicholas Roy, Maya Domeshek, and Dallas Burtraw