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July 31, 2024

Dr. Steven Cliff
Executive Officer
California Air Resources Board

Ms. Rajinder Sahota
Deputy Executive Officer
California Air Resources Board

Re: Comments on Potential Amendments to the Cap-and-Trade Regulation

Dear Dr. Cliff and Ms. Sahota,

Thank you for the opportunity to submit comments following the public workshop held on July 10, 2024 (the "**Workshop**") regarding potential amendments to the cap-and-trade regulation (the "**Regulation**"). These comments are submitted on behalf of our client the Coalition for California Climate Ambition (the "**CCCA**") and should be read together with the previous CCCA Comment Letters submitted on July 7, 2023, October 13, 2023, December 15, 2023, and May 8, 2024 (the "**CCCA Comment Letters**")[1].

The CCCA is an informal, unincorporated association of stakeholders supporting a continued role for the cap-and-trade program (the "**Program**") as the most efficient mechanism to achieve California's climate goals, including achieving carbon neutrality by 2045. The CCCA is comprised of compliance entities, project developers and entities that participate in the Program as "voluntarily associated entities," each has made long-term commitments to reduce emissions within California.

We would like to thank the California Air Resources Board ("**CARB**") staff for hosting the Workshop and for their continuous efforts to refine the Program. The comments from the CCCA are as follows.

1. The CCCA Supports a Mid-Year 2025 Cap Reduction.

According to the new tentative rulemaking timeline presented in the Workshop, changes to the allowance budget would take effect starting in 2026, rather than 2025 as initially suggested by CARB. Implementing the proposed cap reductions in 2026 would result in a steeper cap decline prior to 2030. The CCCA anticipates that a steeper cap decline (whether over only one year or

[1] CCCA Comment Letters on CARB's previous workshops dated 7/7/2023 (link), 10/13/2023 (link), 12/15/2023 (link), and 5/8/2024 (link).

over multiple years) would minimize the carbon price signal in the near term. California cannot afford delays in achieving its 2030 climate goals or its more ambitious 2045 carbon neutrality target. Therefore, the best approach would be to implement changes starting with the 2025 allowance budget.

The CCCA recommends that CARB remove allowance supply starting from the 2025 budget to enable a smoother reduction trajectory towards 2030. This approach will help to minimize leakage effects and ensure emissions reductions occur sooner rather than later. This approach would remove allowances from the state-owned supply in 2025, with allocations trued up over the subsequent five-year period. The benefit would be a more consistent cap toward 2030 with the same supply reductions while preserving the near-term price signal.

2. CARB Should Select an Allowance Removal Option that is Optimized with California's 2030 and 2045 Targets.

In the Workshop, CARB presented two allowance removal scenarios (the "**Options**") to smooth the cap trajectory and avoid the 2030-2031 discontinuity shown in the Standardized Regulatory Impact Assessment (SRIA). The CCCA does not take a firm position on either of the proposed Options but recommends that CARB explore additional scenarios beyond these two. At a minimum, the chosen scenario should include the removal of 265 million allowances before 2030, to align with California's 2030 and 2045 emission targets and with the 2022 Scoping Plan ambition.

3. The CCCA Supports Reevaluating the APCR Tier Price and Price Ceiling.

The Program's Allowance Price Containment Reserve (APCR) and associated price tiers are effective tools that support market stability. Much like all other aspects of the Program, the APCR and associated price tiers must be kept current to align with present-day realities and Program fundamentals. This is especially relevant given the substantial increase of the social cost of carbon as indicated in the SRIA (*see* pp. 32-34).

As such, the CCCA recommends that CARB consider reevaluating the APCR tiers and price ceiling, provided it does not delay the broader rulemaking process. Such reevaluation should incorporate a thorough assessment of the potential implications of any such changes on the market and include an opportunity for public comment. If the current rulemaking timeline does not allow for such an assessment, then CARB should explore making these changes in a future rulemaking.

4. The CCCA Supports Delaying Any Updates to the CAG Rules Until a Comprehensive Stakeholder Engagement Process is Completed.

Conversations with CARB suggest that CARB continues to consider amendments to the current Corporate Association Group ("**CAG**") rules. Given the urgency of the rulemaking and time constraints, the CCCA believes the most prudent approach would be to delay until the cap changes are in place. The CCCA is concerned that changes to the CAG triggers may have a

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negative impact on the Program if the potential ramifications of any changes are not sufficiently assessed.

A comprehensive stakeholder engagement process would allow the state to create a more tailored approach, but this would require additional time. However, the thoughtful process needed to implement equitable CAG changes would inadvertently delay cap reductions, which are essential to achieve the Scoping Plan's 48% reduction target and should be made sooner rather than later.

We appreciate the opportunity to provide comments following the Workshop. We remain available to discuss these matters further at your convenience.

Sincerely,

/s/ Michael Romey

Michael Romey

of LATHAM & WATKINS LLP

/s/ Jean-Philippe Brisson

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