



July 31st, 2024
California Air Resources Board
1001 I Street
Sacramento, CA 95814

RE: Potential Amendments to the Cap-and-Trade Regulation Public Workshop, July 10th

Dear CARB staff,

We appreciate the opportunity to provide comments on potential amendments shared during the July 10th Cap-and-Trade Public Workshop. This regulation is an integral part of California's climate strategy, and we recognize the role of the carbon market in direct emissions reductions and stimulating technological growth. There have been many lessons learned and amendments integrated during the duration of the program, and EnviroVoters would like to see the program pursue greater outcomes for vulnerable communities. Given the likely continuation of this program, it is crucial that climate justice and equitable emissions reductions are prioritized in the upcoming amendments. We appreciate CARB staff's ongoing work on this topic and look forward to continued engagement during the rulemaking process.

California Environmental Voters represents over 135,000 members, with a mission to protect and enhance the environment and the health of all California communities by electing environmental champions, advancing critical priorities, and holding policy makers accountable. As such, EnviroVoters is committed to championing amendments to the program that center ambitious outcomes and community benefits. We also recognize the importance of maintaining the program's auction outcomes, which directly fund California Climate Investments and the AB 617 Community Air Protection Program.

Changes to Allowance Budgets:

Of the hypothetical allowance budget scenarios presented by CARB staff during previous workshops, EnviroVoters is supportive of **SRIA Proposed Scenario A and a 48% reduction by 2030, which would result in an estimated removal of 265 million allowances from the program**. The goal of 48% below 1990 levels as shared in the 2022 Scoping Plan is a goal that we cannot compromise on to see significant climate outcomes, and we urge CARB to commit to this target. **Proposed Scenario A, Option 2* would yield the best outcomes** – alternatives shared in the July 10th workshop that fall under the proposed 265 million allowance removal are far less ambitious. The cap-and-trade program plays a pivotal role in our statewide trajectory toward this goal, and the allowance removals should reflect this.

Furthermore, Proposed Scenario A, Option 2's proposed path 2030 and onward is not ideal, and the impacts of a several year static period could have unintended consequences to the

allowance market. An improved version of Proposed Scenario A, Option 2 would be a linear decline from 2030 to the 2045 allowance target.

Free Allowances:

We commend staff for putting forth proposed changes to the program that, with their respective Cap Adjustment Factors (CAF), will ultimately reduce free allowances given to regulated entities. **Further limiting free allowances is critical** in the overall goal of directing these entities to pursue direct and substantial emissions reductions. EnviroVoters is supportive of further investigation from CARB staff into updating the variables that determine industry allocation as a mechanism of improving allocation practices.

We also urge the consideration of asks presented by CARB's Environmental Justice Advisory Committee (EJAC), which has shared several recommendations for the cap-and-trade program¹:

- Eliminate free allowances
- Eliminate offsets
- Restrict trading in priority environmental justice communities

Consideration of Facility-Level Caps:

In discussing how the program can be improved, **we urge CARB to review concepts that would impose limits on trading in environmental justice communities**, either “no trade zones” or “facility-level caps”. Comments shared by staff in the SRIA and in workshop settings indicate that this will not be pursued in this rulemaking, however EnviroVoters would like to underscore the importance of protecting communities most impacted by environmental injustices as we continue to improve the tool of cap-and trade.

Staff qualitative analysis of EJAC recommendations shared in the SRIA express concern over the hypothetical impacts to the market – potential pressure on allowance prices, cost-effectiveness, liquidity. In addition, the SRIA states concern over leakage prevention, which is fundamental to the program. Lastly, regarding restricting trading in priority environmental justice communities, the SRIA considers trading limits inconsistent with an aggregate cap as mentioned in AB 398².

Analysis of regulated entities under the SRIA show that 250 of the 400 covered entities are stationary sources. As for entities located near disadvantaged communities (DACs), 50% of power generating facilities are adjacent to DACs, as well as 65% of hydrogen and oil/gas facilities. 60% of covered entities overall are in DACs. We agree with staff's assessment that implementation of these trading limits would impact a substantial share of regulated entities. However, such a large quantity of regulated entities being sited in DACs further highlights the

¹ [EJAC Cap and Trade Concerns and Recommendations Presentation \(October 30, 2023\)](#)

² [Cap-and-Trade SRIA \(April 9, 2024\)](#)

need to scrutinize the long-term effects of this program on these communities. The questions of how emissions reductions have been achieved through this program and if polluting facilities are maintaining a harmful status quo in their emissions practices is an evolving topic of exploration.

We urge CARB staff to utilize this amendment period to safeguard disadvantaged communities given the large-scale and long-term role cap-and-trade will play in reaching California's climate goals. The state's climate strategy should not be contingent upon potentially entrenching historically disadvantaged communities in greenhouse gas emissions while the state as whole moves towards a lower-emissions future. Consideration of facility level caps in this rulemaking or forthcoming updates during the program's likely reauthorization is crucial. The market implications of this policy shift are significant, and EnviroVoters remains committed to ongoing discussions with staff to pursue equitable and feasible solutions.

These priorities acknowledge the dynamic nature of the carbon market, the role of which has shifted and grown over time during the program. As cap-and-trade continues, it remains crucial that CARB reevaluates the function of the market, especially on the equity front. We commend staff for sharing promising proposed amendments to the program, and we will remain engaged during the upcoming rulemaking process.

Regards,

A handwritten signature in black ink, appearing to read "Gracyna Mohabir". The signature is fluid and cursive, with the first name "Gracyna" and last name "Mohabir" clearly distinguishable.

Gracyna Mohabir

Clean Air & Energy Regulatory Advocate
California Environmental Voters