MERCURIA
ENERGY AMERICA, LLC

Mercuria Energy America, a Delaware corporation, is an independent energy marketing and trading company. Mercuria is a regulated entity within the cap-and-trade program and long-time participant in the Low Carbon Fuel Standard. We appreciate the opportunity to submit these comments on potential changes to the state's cap-and-trade program.

During the July workshop, the ARB outlined two proposals to cut between 180-265 million allowances from the auction-allocation supply over the 2026-2030 period. These proposals differed from past workshops that focused cuts over the 2025-2030 period.

Given the urgency of the climate crisis, Mercuria believes implementing changes as soon as feasible will better serve the state, residents and the market as a whole. Any shift in time will push reductions further into the future at a time when California cannot afford to wait.

Mercuria comments on three specific areas that could enhance the existing program:

- ARB should explore a mid-year start to cap reductions
- California should re-evaluate price ceiling, APCR trigger prices
- RPS adjustment should not be phased out this decade

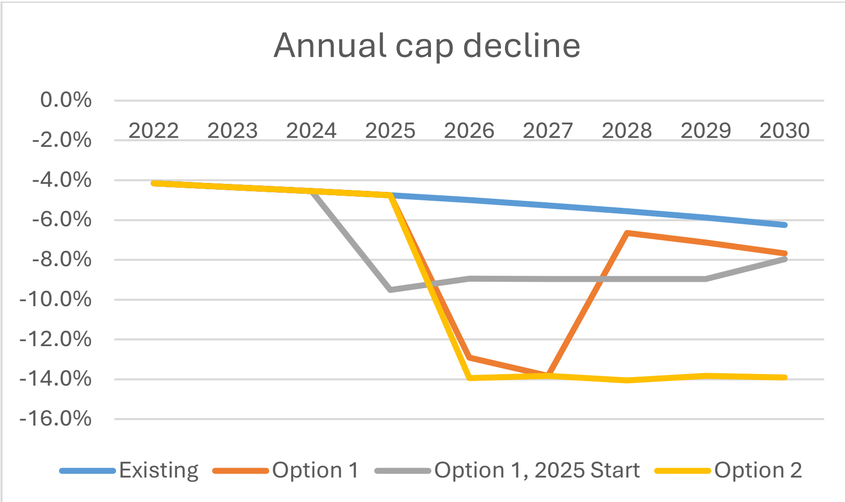
ARB should explore a mid-year start to smooth reductions over a longer period of time

Starting reductions as soon as possible could aide emitters by creating a more steady, consistent cap over the back half of the decade, while also providing market participants a year to prepare for changes to allocation levels.

Under the ARB's proposed options, the state would cut caps by an average of 10% for Option 1 and 14% for Option 2. Option 1 would reduce the caps by 13-14% in the first two years before seeing smaller reductions over the 2028-2030 period.

By implementing changes to the cap when the regulation is finalized, the state could create a more consistent cap. Figure 1 shows an average cap decline of 9% over the 2025-2030 period with an identical cumulative cap to Option 1.

Figure 1



This proposal would require the state to decouple the cap decline from the cap adjustment factors (CAF) to ensure equitable treatment. The state would also need to reduce their own auction volumes in 2025 to enact this change, but the cumulative volume would be similar to Option 1.

By decoupling the cap decline from CAF, industrial and natural gas allocations would decline at a different rate over the 2026-2030 period than the annual budgets. Power allocations may also need to be adjusted over the 2026-2030 period to account for overallocation in 2025.

All allocations would be similar to those presented in Option 1, and any true-ups necessary could be spread over the 2026-2030 period.

To minimize disruptions, the ARB could also align the 2026-2030 holding limit using the existing methodology, giving entities a year to anticipate future supply dynamics.

ARB should re-evaluate price ceiling, APCR trigger prices

California must ensure the program continues to encourage additional reductions rather than entities simply using cost containment allowances to cover future emissions obligations, which would not lead to tangible near-term changes.

During the 2018 rulemaking, the ARB established a $65 price ceiling as directed by AB 398 using a variety of factors, including the full social cost of carbon. The price was informed by the Interagency Working Group's (IWG) $60.29 (2018 dollars) using a 3% discount rate for 2030.

The ARB determined a price below that figure would fail to recognize the social cost of carbon and the economic impacts of GHG emissions, and the agency set the price ceiling slightly above that IWG price.

In their latest analysis, IWG determined that the social cost of carbon for 2030 had risen to $73 (2022 dollars)[i]. The ARB should re-evaluate the current price ceiling and APCR trigger prices based on this new data point.

RPS adjustment should not be phased or delayed until 2030

California should not implement a phase out of the RPS adjustment, but if the state feels this is necessary, the most obvious date would be at the end of 2030 as the state begins to shift to the 2045 carbon neutrality goal.

Under the current RPS and cap-and-trade programs, the compliance periods do not align until 2030. If the ARB were to implement some change prior to that date, the decision could create disruptions within one or both of those markets.

In addition, the removal of the RPS adjustment would likely add costs to end consumers as the market would need to account for the new compliance costs associated with the phase out. Currently, PCC2s offer the cheapest path to compliance for load-serving entities, and if PCC2 transactions become more challenging in the future, the phase out would add costs during heightened concerns about affordability.

This decision may also impair entities who have existing contracts that assume no compliance obligations with PCC2 transactions, while the phase out could also have implications for power allocations.

Some entities may have contracts that assume the RPS adjustment continues indefinitely, and under the current regulation, these entities would be unable to account for those higher costs if the phase out occurs prior to 2030. This may require some relief from the ARB either in the form of direct allocation or the continuation of the RPS adjustment.

The ARB would also need to consider how this decision may impact allocations that assume utilities are allocated for their full RPS requirement.

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[i] https://ww2.arb.ca.gov/sites/default/files/2024-04/nc-Cap-and-Trade_SRIA2024.pdf