350BayArea

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Napa Climate NOW!

August 15, 2023
To: California Air Resources Board
Re: Potential Amendments to the Cap-and-Trade Regulation

350 Bay Area appreciates the opportunity to respond to CARB's questions regarding improvements to the Cap and Trade program. As acknowledged in the July 27, 2023 workshop presentation, slide 25, California is unlikely to meet the 2022 scoping plan GHG targets as the plan's reliance on carbon capture and sequestration and hydrogen are unlikely to produce sufficient decreases in emissions in the 2030 time frame. Furthermore, results of existing CCS projects result in inadequate CO2 capture and substantial energy demands–thus CCS cannot be counted on in the longer term to provide definite emissions reductions. The Cap and Trade program is intended to serve as a critical backstop so that appropriate price signals motivate entities to meet the goals. It is crucial that improvements in the Cap and Trade program document whether (or not) Cap and Trade can be effective in meeting California climate goals.

Given the urgency of the climate crisis, it is essential that direct greenhouse gas reduction measures be the primary focus of CARB planning to meet the 2030 goal. The questions from CARB include a request to consider cost-effectiveness analyses in recommending changes to Cap and Trade. We urge that CARB first build in the strategic imperative for direct greenhouse gas reduction measures and for protecting Environmental Justice communities, including reducing co-pollutants as mandatory design elements, as CARB considers revising the Cap and Trade program. Cost effectiveness analysis may then be useful in evaluating alternative strategies. However, as demonstrated in recent publications, the current cost effectiveness tests seriously underprice the Social Cost of Carbon[1]. We recommend that cost-effectiveness analyses should be performed by CARB staff on alternatives under consideration using the updated Federal SCC once it becomes available.

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[1] https://doi.org/10.1038/s41586-022-05224-9 Comprehensive evidence implies a higher social cost of CO2 Nature 2022 687-700

Specific recommendations:

1) 350 Bay Area strongly supports the “one-product, one-benchmark” framework for oil and gas extraction, which should be used to Incentivize the lowest GHG method of production. As noted in slides 57 and 58, a UCSB study concluded the key reason for high emission intensity of California crude was use of thermal enhanced oil recovery (EOR) utilizing fossil gas combustion for steam production. Of the ~80 million allowances for oil and gas extraction through budget year 2023, a majority went for thermal production.
   The powerpoint considers “leakage” as an argument to support the huge subsidies for thermal EOR. While leakage is of concern, where is the weighting of air pollution health effects? How are impacts of continued fossil fuel extraction on Environmental Justice communities considered? How are the clear health benefits of decreasing fossil fuel use incorporated in current analyses? Other measures such as a border price adjustment may be considered to address leakage–it should not be used as an argument to abandon California policies and values.
   At a minimum, charging the full value of allowances to address the increased emissions could be used for supporting emissions reductions in other sectors.

2) We also urge CARB to remove all free allowances from the oil and gas sectors. Given the projected failure to meet targets, the agency should use all the tools it has to address the root of the problem, and stop subsidizing continued emissions from oil and gas. The favoring of thermal EOR is particularly inappropriate, but we urge CARB to immediately stop issuing free allowances to this sector and sunset previously issued free allowances as soon as possible.

3) CARB asks whether the publicly owned utilities should be subject to the same guidance for use of allowances as the investor owned utilities. 350 Bay Area argues the opposite– the current allocation by the IOU’s to individual customer rebates does not accelerate emissions reduction and the rebates are essentially invisible to the vast majority of ratepayers. The size of the rebates is insufficient for ratepayers to “install efficiency measures.” We urge instead that these allowances go to finance GHG

reduction measures, such as upfront incentives to lower income customers to enable acquisition or financing of high efficiency heat pumps, and/or investments in energy efficiency.

4) In addition, CARB (and other agencies with a role in energy design and planning) should support investments in local utility scale renewable energy and storage on the distribution grid to improve local resiliency, reduce threats of wildfire shutoffs, and reduce release of CO_2 from disturbing desert crusts for large scale projects in the desert.