17 August 2023

Liane Randolph, Chair
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Comments on the July 27, 2023 Public Workshop:
Potential Amendments to the Cap-and-Trade Regulation

Chair Randolph:

Thank you for the workshop and opportunity to comment on a critical aspect of California's nation-leading efforts to combat the climate crisis.

Climate Action California and allied groups within our coalition believe that Cap and Trade (C&T) will only be effective going forward if it is significantly modified. Of the options offered at the July 27 workshop, the 55 percent emissions reduction target by 2030 is the one we favor. HOWEVER, we strongly suggest that that target be raised to at least 70 percent. This will indeed escalate costs for polluters, but that is of course the point; in this moment of escalating climate crisis, humanity cannot afford a gradual transition to clean energy. As esteemed climate scientist and IPCC/NCA author Dr. Michael Mann puts it: if we had begun acting 30 years ago, decarbonization would have been like skiing down the bunny slope. However, we have waited so long that our decarbonization journey will be like skiing a double black diamond mountain.

Our additional recommendations follow.

1. WASTE NO MORE TIME. Our foremost recommendation is to quickly fortify C&T according to the best empirical research and economic theories. "Quickly" means implementing the following in the first year following adoption of a revised program plan.

   Herein, clean energy means solar, geothermal, wind, ocean, and electrolytic hydrogen produced with clean, dedicated, local, time-matched renewable energy. Other forms of energy produce toxic or GHG emissions in one or more Scopes of their lifecycle.

2. SOCIAL COST OF CARBON (SCC). Increase the floor and ceiling price of allowances to the SCC as determined by EPA.

   At this point, the discount rate becomes a critical issue, and an inevitable subject of principled debate. At a 1.5 percent discount rate, the SCC of carbon is between $310 and $340/ton, which would no doubt be a shock to the financial system. The US Interagency Working Group has recommended 2.0 percent, resulting in $185/ tonne. In fact we strongly prefer a zero discount rate of zero, because future generations, and their ability to survive on our planet, are fully as valuable as current generations. Furthermore, the costs of adaptation and mitigation are rising annually; investments in mitigation in near-term years will consequently show a greater return on investment than investments in later years.

   Whatever the discount rate CARB selects, because SCC increases annually, allowance prices should increase commensurately.[1]

3. CARBON OFFSETS. These should be discontinued until there is a substantial body of peer-reviewed research that verifies their efficacy. Currently, there is very little independent, methodologically-sound research showing that offsets do more than perpetuate emissions.

4. ALLOWANCES. We urge retirement of all allowances, including VRE, by 2029. Allowances that were free and those that were sold at the lowest historic prices should be retired first. Consider buying these back at the price paid—if any. Revenue to buy these could

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1 https://www.resources.org/common-resources/the-us-environmental-protection-agency-introduces-a-new-social-cost-of-carbon-for-public-comment/?mc_cid=33116766a8

be derived from allowance revenue in each future year. Accelerate the decline of the rate of issuance of new allowances annually.[2]

5. PROGRAM SUPPORT AND ADMINISTRATION. Companies that participate in C&T should pay for all costs of C&T program administration. Add this to the SCC to determine the price of allowances. Some Greenhouse Gas Reduction Fund (GGRF) monies should be given in the form of tax credits to companies that transition from dirty to clean energy use.

6. ELIGIBILITY TO PARTICIPATE. Petroleum producers should no longer be eligible to participate in the program. Instead, they should be more stringently regulated. Any additional company/sector categories should be major emitters of methane, the short-lived pollutant that, if abated, holds the greatest promise to reduce near-term heating.

7. SCOPE. Include dairies and biopower plants that emit more than 25,000 metric tons of greenhouse gases annually.

8. DIRECTLY TAX LARGE POINT-SOURCE EMITTERS IN ECONOMICALLY DISADVANTAGED AREAS. The EJAC has strongly suggested that large point-source emitters in economically disadvantaged communities should not be allowed to buy credits. A Resources for the Future analysis confirms that this would have little effect on the overall market but provide a major benefit for those communities.[3]

CONCLUSION

We strongly recommend implementation of all of the above, all at once—not gradually—and evaluating, and reporting, emissions results in detail.. If there is little evidence that recasting the program this way is effective in significantly reducing emissions, then CARB should replace it with emissions regulation, a Clean Energy Performance Plan, and other proven emissions policies. Regulation (whether within or outside of C&T) should be done based on emissions in all three Scopes.

[2] https://doi.org/10.1016/j.enpol.2023.113545)
[3] https://media.rff.org/documents/Report_23-09.pdf

We recommend monitoring the following dependent variables before and during the trial period. Companies that are in the C&T program should be contrasted with companies that are not.

- Percent of companies that replace dirty technology with clean technology
- Percent of companies that close down dirty plants
- Percent of companies that disgorge all operations that produce or use dirty energy.
- Percent of companies that create more effective clean energy innovations
- Tons of emission reduction of each participating company v. non-participating companies

Global emissions and environmental degradation are near record highs. In contrast, decarbonization policies of governments are so far insufficient to limit warming to 1.5C. These dire circumstances call for more effective policies that adhere to the precautionary principle. Emissions targets for 2030 are more critical than later targets. Policies should be revised so they significantly decrease annual emissions between 2024 and 2030 more than between 2045 and 2050. The climate lag is 38 years, which highlights the urgency of the matter. The CalEPA Independent Emissions Market Advisory Committee provides useful guidelines for emissions policies, including C&T.

Thank you for considering these comments. We wish CARB courage and godspeed in addressing California’s, and indeed our planet’s, urgent need for drastic and immediate policy change to bring down emissions. We will be more than happy to discuss these ideas with staff at any time.

Sincerely,

Janet Cox, CEO
Climate Action California