



California Council for Environmental and Economic Balance

101 Mission Street, Suite 1440, San Francisco, California 94105
415-512-7890 phone, 415-512-7897 fax, www.cceeb.org

August 17, 2023

Dr. Mark Sippola
Branch Chief, Cap-and-Trade Program
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Comments on the Cap-and-Trade Program Workshop, July 27, 2023

Dear Dr. Sippola,

On behalf of the California Council for Environmental & Economic Balance (CCEEB), we write to provide comments on the potential changes to California's Cap-and-Trade Program. CCEEB is a coalition of business, labor, and public leaders that works together to advance strategies to achieve a sound economy and a healthy environment. Founded in 1973, CCEEB is a non-profit and non-partisan organization.

Aligning California's Cap-and-Trade Program with the carbon neutrality targets set in AB 1279 (Muratsuchi, 2022) is a significant task that requires careful maintenance of the tenets of AB 32 (Nunez, 2006) and AB 398 (Garcia, 2017) to balance cost effectiveness, technological feasibility, and assertive environmental action. The 2022 Scoping Plan attempts to strike just such a balance between increased ambition and the pace of the technological shifts needed to decarbonize the State's economy, spurred by a mix of regulations, incentives, and market-based signals such as those sent by the Cap-and-Trade program. We appreciate this workshop's recognition of that balance.

Impacts of Ambition

CARB staff recognizes the importance of rapid technological deployment as mitigation for direct costs to consumers and ratepayers. Absent significant acceleration of siting, permitting and construction of the necessary decarbonization projects identified within the Scoping Plan, the Cap-and-Trade program will need to mitigate those emissions through its market. This will result in higher allowance values and compliance costs that directly impact the costs of products produced and energy supplied to consumers within California.

CCEEB recognizes the importance of achieving the 2045 carbon neutrality goal and urges CARB to take a comprehensive and holistic approach to the Cap-and-Trade rulemaking. Specifically looking at the impacts and benefits of extending this program to 2045, which we believe will help moderate impacts to consumers and uphold the cost containment provisions of California's overarching statutes that have been successfully implemented with broad political and bipartisan support thus far.

As CARB examines the impacts of our increased ambition, specific attention should be given to mechanisms that will support the resiliency and sustainability of the marketplace such as banking, offsets, and other cost containment provisions like the annual price containment reserve (APCR). An effective and efficient market paired with strong action on the deployment of technologies is necessary to achieve our decarbonization goals while also helping to avoid greenhouse gas emission leakage.

Allowance Budget and Cap Slope

We agree with CARB's initial assessment of the potential allowance budgets. The magnitude of the changes necessary to achieve a 48% reduction by 2030 in the time between the adoption of these regulatory changes is relatively short. As such we are concerned that the cap slope to straight line the program to a 48% might be too steep to achieve in the market alone. However, we look forward to seeing the modeling results and working with CARB on an appropriate path forward.

We want to ensure that the flexibility of the program continues by avoiding undue changes beyond those related to the program's allowance budget and allocations. We believe CARB's initial focus on these areas is most appropriate and will help avoid the lack of liquidity currently evidenced in the Washington Cap-and-Invest program.

Response to Questions from the Workshop

- New industrial activities should be afforded the same leakage protection as existing activities under AB 32 and AB 398.
 - Drop-in biogenic fuels are playing a significant role in decarbonizing CA's transportation sector and additional in-state drop-in biogenic fuel production will likely increase that trend.¹
- CCEEB supports CARB's efforts to develop a benchmark for these facilities.
- CCEEB supports CARB's effort to provide industrial allowances to facilities from the start of production.
- CCEEB supports CARB directly allocating allowances for electricity carbon costs to emissions-intensive trade-exposed entities already covered by the program.
- CCEEB supports maintaining allowances for our critical water infrastructure projects, namely the Metropolitan Water District of Southern California and Department of Water Resources (i.e., State Water Contractors).

Conclusion

We appreciate the workshop discussion and will continue to work with our members to better understand the impact of the suggested changes and questions CARB has raised. The importance of California's leadership through the Cap-and-Trade program as well as the benefits of this program require a deliberative and intentional approach to these amendments with specific consideration to the 2045 carbon neutrality goal. Evaluation of how this program should be tailored to meet our near-term and long-term goal brings to the forefront the need for certainty that the program will continue beyond 2030.

¹ https://ww2.arb.ca.gov/sites/default/files/classic/cc/inventory/2000-2020_ghg_inventory_trends.pdf

Thank you for your consideration of our comments. We look forward to discussing them or answering any questions you may have at your convenience. Please contact me or Jackson R. Gualco, Kendra Daijogo or Mikhael Skvarla, CCEEB's governmental relations representatives at The Gualco Group, Inc. at (916) 441-1392 should you have any questions or comments.

Sincerely,

Tim Carmichael
President/CEO