**Comments on California Cap and Trade 2023**

To: California Air Resources Board

I am writing on behalf of the 34,000 members of the California Citizens’ Climate Network with recommendations for improvements to the cap and trade system.

**Lower the cap as quickly as possible**

Given the urgency of climate change, California should be taking a lead role in reducing emissions as quickly as possible and exporting the policies, systems, and technologies that enable that transition.

Given the three scenarios CARB is exploring for its 2030 cap, we encourage CARB to implement the option to lower the cap for 2030 to 55% below 1990 levels to put us on the fastest path towards decarbonization. We recognize that this is an incredibly ambitious target but California has already shown itself able to meet and exceed targets in the past.

In addition, it is [estimated](https://calepa.ca.gov/2021-iemac-annual-report/) that there are currently at least 321 million banked allowances in the cap and trade system. CARB [calculates](https://ww2.arb.ca.gov/sites/default/files/2023-07/nc-CapTradeWorkshop_July272023_0.pdf) that shifting to a cap at 55% below 1990 levels would only remove 390 million allowances. Thus removal of those 390 million allowances may be necessary just for California to actually hit its statutory target of emissions 40% below 1990 levels for 2030. An aggressive reduction in the cap would be one clear way to address the concerns over allowance oversupply.

**Free and Consigned Allowances**

Cutting the cap should be done in such a way that the reduction in allowances is shared proportionally across free, consigned, and auctioned allowances. Otherwise this would give unfair advantage to those receiving free and consigned allowances and would decrease revenue available to the state.

**Allowances should be fully removed**

Allowances removed by reducing the cap should not be placed in the Allowance Price Containment Reserve and instead should be fully removed from the pool for auction and allocation.

**Raise the ceiling price**

We recognize that lowering the cap to this level would increase the likelihood that allowance prices reach the price ceiling. We do not see a higher price for pollution as a problem, as this is a key incentive that will drive emissions reductions, and a higher price should motivate more and quicker reductions. (Mitigating impact on households is discussed below.)

Under the current program design, unlimited allowances will be made available at the price ceiling, which would potentially allow emissions to continue above whatever cap is set. Given that design and the increased likelihood of hitting the price ceiling, we recommend that the ceiling price should be increased at a faster rate than the current 5% above inflation.

The price ceiling should ideally be increased at a rate that our best modeling shows as likely to result in reaching our emissions reduction targets. To limit global warming to 1.5°C, the IPCC suggests a global carbon price of at least [$135/ton by 2030](https://www.ipcc.ch/sr15/chapter/chapter-2/) (in 2010 USD - that is already $190 in 2023 USD). CARB should do the modeling necessary to determine a reasonable price trajectory for a carbon price necessary to meet our emissions reduction targets and set the ceiling price to be at or above that price. Alternatively, without such modeling, CARB should set the price ceiling to align with IPCC suggestions. In either case, there should be a rule-based system for automatically adjusting the price ceiling to meet our emissions targets. For instance, in years where we do not hit the price ceiling it might increase at 5% over inflation, but in years where we do hit the price ceiling, the next year’s price ceiling would be 10% over inflation. Such a self-ratcheting price mechanism would provide a clear and predictable incentive for quicker emissions reductions.

**Adjust the floor and reserve prices accordingly**

Given that allowances are now regularly selling well above the floor price, that floor price should be raised to narrow the band of potential prices at auction. This can provide greater certainty for state revenue and greater clarity to covered entities about future prices. Ideally the floor price would also have a rule-based self-ratcheting system. For instance, the floor price could be set at 5% above the average settlement prices from the last year’s auctions so that as the settlement price increases, the floor price increases along with it.

Reserve price levels for the Allowance Price Containment Reserve should also be updated so the reserve levels are automatically placed appropriately between the floor and ceiling prices.

**Protecting low and middle income households**

While the current system of providing rebates via utility bills provides some support for households that may experience price increases, it is inadequate to address equity concerns that could arise as cap and trade prices rise, and is confusing and opaque to the average person.

California Citizens’ Climate Network is currently sponsoring a bill ([AB858](https://legiscan.com/CA/text/AB858/id/2698791)) that would allocate increased revenue from cap and trade auctions to directly support low and middle income households through clear and transparent direct payments. Such a system would be more progressive and increase equity and justice while supporting households through the clean energy transition. Money would flow directly to those in disadvantaged and frontline communities that are most in need of support and most at risk of suffering under a high energy burden. It would also insulate the cap and trade program from political backlash as allowances prices rise, which could drive up costs for energy and other products and services. Direct payments that are tied to auction revenue will provide a clear incentive to preserve political support for the program. This is very similar to the system used in Canada today for their federal carbon price. While CARB does not have the authority to implement such a program, it is something CARB should encourage the legislature to do to address equity concerns.