Citizens' Climate Lobby California

October 26, 2023
To: California Air Resources Board
From: Tony Sirna on behalf of Citizens' Climate Lobby California

Comments on the October 5, 2023 California Public Workshop: Potential Amendments to the Cap-and-Trade Regulation

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

Thank you for the opportunity to provide comment on California's Cap-and-Trade Program including the potential updates to the program that were explored in the workshop held on October 5, 2023. We appreciate CARB's commitment to meeting or exceeding California's statutory emissions targets, and all the work that CARB staff and Board members put into supporting these various programs.

As CARB considers refinements to the program we offer the following suggestions:

Lower the cap to 55% below 1990 levels in 2030
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 the transition to a net zero economy.

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. An aggressive reduction cap for 2030 will put us on a much more solid trajectory for meeting carbon neutrality targets by 2045.

Allowance reductions should apply to both auctioned and directly allocated allowances.
Reducing 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.

Removing allowances from the APCR would be counterproductive, allowing emissions to continue now, and reducing the effectiveness of the cost containment mechanisms. To preserve the integrity of the program, allowances should be fully removed.

Raise the floor price
Businesses will be more able to justify early investments in emissions reductions when there is a clear and predictable price signal. A higher price floor that rises more quickly than it does now, would

motivate long term investments in reducing emissions.There are various ways that CARB could implement a higher floor price:

- Increase the steady rate that the floor price increases so it is in line with what modeling shows would drive the emissions reductions required. To limit global warming to 1.5°C, the IPCC suggests a global carbon price of at least $135/ton by 2030 (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 floor price accordingly.
- Or, CARB could have the floor price automatically ratchet up based on previous settlement prices. 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. This would not provide as much long term price certainty as the option above, but it would allow for a continually rising price trajectory.
- CARB could also implement both of these solutions, setting a baseline price trajectory that can further ratchet up if settlement prices are above that baseline.

Raise the ceiling price
If the price floor is adjusted to rise more quickly and the cap is lowered, then the price ceiling should be adjusted in turn to allow for an appropriate amount of space for the market to set the price. Therefore the price ceiling and any reserve tiers should be based formulaically on the price floor. A narrow band between the floor and ceiling would provide the most price certainty to businesses in their planning. If the price floor is automatically ratcheting up based on recent settlement prices, the ceiling price would automatically ratchet up as well. This would allow the price containment reserve to prevent significant spikes in allowance prices, while still allowing the prices to rise over time to the level necessary to meet emissions reduction targets.

Any offsets used should be removed from the allowance budget
As is currently the case in Washington State and has been recommended by the Independent Emissions Market Advisory Committee, any offsets used in the program should reduce the allowance budget accordingly. This would alleviate concerns about offsets that may not reflect effective emissions reductions.

Border adjustment to prevent leakage
In lieu of the existing system of providing free allowances to Emission Intensive Trade Exposed (EITE) industries, CARB should implement a Carbon Border Adjustment Mechanism (CBAM).

In the past, some have considered a CBAM at the state-level to be a challenge to align with US constitutional precedent. But the success of the Low Carbon Fuel Standard has shown the defensibility of pricing upstream emissions for goods produced outside the state of California. A similar mechanism could allow California to end the practice of free allowances, and instead apply a comparable carbon price to EITE products imported into the state, as well as refunding any carbon price paid on products exported from California to locations without a comparable carbon price. Such a program could leverage the systems employed in the European Union's CBAM, including data on emissions intensity of products. This would be a more effective and fair system for providing a level playing field and preventing leakage.

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. For one, not all California residents have utility bills and so do not see the benefits of this program.

Citizens' Climate Lobby California is currently sponsoring a bill (AB858) that would allocate increased revenue from cap and trade auctions to directly support low and middle income households through clear and transparent direct payments.

The Legislative Analyst Office has repeatedly recommended this option: "We recommend the Legislature consider using a portion of GGRF revenue to provide direct financial support to households and/or businesses."

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.