October 26, 2023

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

Re: Comments on October 5 CARB workshop regarding updates to California's Cap-and-Trade Program

Dear Chair Randolph,

We appreciate the opportunity to offer our input regarding the workshops held on October 5, 2023, which considered updates to the California Cap-and-Trade Program. We extend our appreciation for your dedicated efforts in strengthening this important policy tool, crucial for California's pursuit of, and potentially surpassing, the mandated emissions reduction goals. We eagerly anticipate continued collaboration with CARB, encompassing both informal exchanges and formal procedures, to address needed refinements to the Cap-and-Trade program.

The following comments are a response to the workshop proposals from October 5, and they also highlight critical issues we recommend CARB address promptly in upcoming workshops.

As underscored by U.N. Secretary General Antonio Guterres in March 2023, the "climate time bomb is ticking" demanding immediate action to curtail GHG emissions. The global surge in extreme weather events throughout this year serves as a stark reminder of the disastrous repercussions of procrastination. It is imperative that our climate aspirations align with the escalating severity of climate change effects. The emissions reduction targets within the California cap-and-trade framework must embody this sense of urgency.

We strongly advocate for CARB to elevate the level of ambition within their emissions reduction trajectories and goals.

As CARB has previously noted, California exceeded expectations and achieved its 2020 greenhouse gas emission goal years ahead of schedule. As such, the state has a clear opportunity to increase the ambition of the cap-and-trade program by updating allowance budgets to reflect these reductions. Given the current climate crisis, it is imperative that we embrace a far more ambitious approach moving forward. We urge CARB to set its sights on the “moon” and embrace the most visionary scenarios capable of propelling us to achieve and even surpass our mandated goals.

We recommend the reduction in the allowance budget be reflected in the number of allowances allocated directly to covered entities and offered at auction.

In order to ensure that any cap adjustment achieves actual reductions in the near-term, CARB should reduce the allowance pool for direct allocation and for allowance auctions. The other options mentioned in previous workshops, such as drawing from the Allowance Price Containment Reserve (APCR) or from the price ceiling, would not be an effective way to achieve the goal of this cap adjustment and would risk disincentivizing near-term reductions. Reducing the number of allowances in the APCR would only serve to reduce the efficacy of an important cost containment feature of the program and would not ensure near-term reductions because the quantity of allowances available for auction or allocation would remain unchanged from the current cap trajectory.

We recommend CARB incorporate an Emissions Containment Reserve (ECR) into the cap-and-trade program.

An ECR automatically lowers allowance supply in response to low allowance prices. ECRs are already established in both Washington’s Climate Commitment Act (CCA) and the Regional Greenhouse Gas Initiative (RGGI). Like the existing Allowance Price Containment Reserve, an ECR would adjust the supply of allowances available at auction in response to the price. If auction prices remain near the price floor, then fewer allowances are available for purchase, representing a temporary tightening of the emissions cap. The benefit of this approach is that it is predictable based on auction settlement prices and represents a modest increase in climate ambition when emission reductions are relatively inexpensive. Allowances not offered for sale now represent emissions that are not occurring now, and if those allowances are then permanently retired, then California is achieving greater cumulative emission reductions. Importantly, if allowances are not permanently retired, they may be added to the market to permit additional emissions later in the decade. Thus, to increase the ambition of the cap-and-trade program, an ECR should permanently remove excess allowances.

We recommend offsets be counted below the cap

When offsets are used we recommend they count below the cap as is done in the Washington State cap and invest program[1]. As recommended by the Independent Emissions Market Advisory Committee, this approach would contain concerns about low-quality offsets by creating an automatic cap adjustment when offsets are used for compliance.[2] Several studies have shown that some offset protocols are not sufficiently rigorous, and emission reductions can lack permanence or additionality.

We recommend the addition of facility-level emission caps

No carbon trading zones or facility-level emission caps should be considered in air quality nonattainment areas and/or specific air quality targets at the facility level. As recommended by both the Environmental Justice Advisory Committee[3] and Independent Emissions Market Advisory Committee,[4] facility-specific restrictions on trading allowances would support greater climate ambition by facilities in overburdened communities by ensuring their emissions decline at least as fast as the overall emissions cap. Alongside these reductions would likely be greater improvements in local air emissions. Resources for the Future has also recently examined the concept of facility-specific emission caps and found the impact on the emissions market to be minimal.[5]

We propose a comprehensive review of the free allowances allocated to Emission Intensive Trade Exposed (EITE) firms.

The allocation of free allowances are designed to prevent emissions leakage and remove any competitive disadvantage that may occur as a result of the price on carbon

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1 https://waconservationaction.org/carbon-offsets-and-how-they-relate-to-the-climate-commitment-act/
2 https://calepa.ca.gov/wp-content/uploads/sites/6/2022/02/2021-IEMAC-Annual-Report.pdf
3 https://ww2.arb.ca.gov/sites/default/files/barcu/board/books/2022/090122/finalejacrecs.pdf
4 https://calepa.ca.gov/wp-content/uploads/sites/6/2023/02/2022-ANNUAL-REPORT-OF-THE-INDEPENDENT-EMISSIONS-MARKET-ADVISORY-COMMITTEE-2.pdf
5 https://www.rff.org/publications/reports/how-would-facility-specific-emissions-caps-affect-the-california-carbon-market/

pollution. However, this allocation may be too generous to sufficiently encourage decarbonization efforts. There is a pressing need for robust policies that promote decarbonization in these emission-intensive industries.

We recommend CARB adopt a more targeted approach. Specifically, CARB should (1) adopt an aggressive cap adjustment that does not delay implementation as some scenarios under consideration would, and instead maintain a "straight-line" approach to reducing the cap to at least the 48% level in line with the Scoping Plan, and potentially the 55% level that is best supported by the scientific realities of the climate crisis and California's position as a wealthy and stable leadership jurisdiction; (2) apply this cap adjustment to EITE allocations, but consider applying a more rapid phase-in for facilities that have not reduced direct emissions significantly since the program began and/or significantly impact disadvantaged communities; and (3) carry out a comprehensive review and update to efficiency benchmark factors.

We extend our sincere gratitude to CARB for its unwavering commitment to climate leadership in the continuous review and enhancement of California’s landmark cap-and-trade program. This ongoing and essential process of refinement is critical to ensure a more effective cap and trade program, one that integrates valuable insights garnered from 12 years of real-world experience.

We look forward to working closely with CARB’s staff and stakeholders to ensure the final product of this process is a program that maximizes climate ambition, supports local air quality improvements, continues to provide appropriate compliance flexibility and cost containment, and remains a model for other jurisdictions looking to accelerate their own climate leadership.

Respectively Submitted,

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