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Cap-and-Trade Workshop
California Air Resources Board
1001 I Street,
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Submitted via the Workshop Comment Submittal Form
and by email to ctworkshop@arb.ca.gov

Re: Comments on the CARB Public Workshop: Potential Amendments to the Cap-and-Trade Regulation

The Western States Petroleum Association (WSPA) appreciates the opportunity to comment on the California Air Resources Board's (CARB) Public Workshop: Potential Amendments to the Cap-and-Trade Regulation, hosted on October 5, 2023.¹ WSPA is a non-profit trade association that represents companies that import and export, produce, refine, transport and market petroleum, petroleum products, natural gas and other energy supplies in California and four other western states, and has been an active participant in air quality planning issues for over 30 years.

Assembly Bill (AB) 32, the California Global Warming Solutions Act of 2006, sets ambitious greenhouse gas (GHG) emission reduction goals that will continue to position the State as a global leader in green technologies. In carrying out these goals, AB 32 directs CARB to adopt regulations to achieve the maximum technologically feasible GHG emission reductions. However, AB 32 places two key *limits* on CARB's broad authority to regulate emissions: (1) CARB must minimize the leakage potential of the actions taken; and (2) CARB must ensure that the emissions reductions are technologically feasible *and* cost-effective.² CARB should carefully consider these factors in revising the Cap-and-Trade program.

WSPA supports CARB's objective to adopt a 2030 reduction target for the Cap-and-Trade program that can maintain a steady and stable carbon market in California. Market-based approaches like the Cap-and-Trade program will help California make significant progress towards its emissions reduction goals while ensuring that these reductions are cost-effective.

WSPA encourages CARB to integrate carbon-negative technologies into the Cap-and-Trade framework to support their successful development and use. Including carbon capture, utilization, and storage (CCUS) and carbon dioxide removal (CDR) technology within the Cap-and-Trade program will be critical to achieving the State's decarbonization objectives. As CARB emphasized in the 2022 Scoping Plan Update, it will not be possible to meet the 2045 carbon neutrality target without the deployment CCUS and CDR technologies at significant scale. The Scoping Plan set targets for 20 million metric tons of carbon dioxide equivalents (MMTCO_{2e}) removal and capture by 2030 and 100 MMTCO_{2e} by 2045. However, deploying CDR and CCUS

¹ CARB. California Public Workshop: Potential Amendments to the Cap-and-Trade Regulation. Available at: https://ww2.arb.ca.gov/sites/default/files/2023-10/nc-CapTradeWorkshop_Oct052023_0.pdf and https://ww2.arb.ca.gov/sites/default/files/2023-10/nc-CapTradeWorkshop_Oct052023_afternoon_0.pdf. Accessed: October 2023.

² AB 32. Available at: https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=200520060AB32. Accessed: October 2023.

technologies is currently infeasible at scale due to cost, technology readiness, and permitting barriers that delay even pilot projects. It is therefore imperative that CARB incentivize research and investment to support deployment of CCUS and CDR technologies at the scales required to meet the State's climate goals.

CARB must also ensure that the Cap-and-Trade amendments are consistent with other legislative goals. Senate Bill (SB) X1-2 (2023) directs State agencies to evaluate measures to ensure that petroleum and alternative transportation fuels are adequate, affordable, reliable, and equitable. In updating the Cap-and-Trade Regulation, CARB must consider impacts to gasoline costs consistent with SB X1-2. According to the California Energy Commission, the Cap-and-Trade Regulation and the Low Carbon Fuel Standard (LCFS) together add approximately 39 cents per gallon to the cost of gasoline.³ The natural gas sector recently experienced similar supply constraints during periods of strong demand, challenging suppliers to deliver an adequate supply of affordable liquid fuels. The impacts of these cost increases are likely to be significant for California consumers. California continues to face serious supply constraints for transportation fuels, leading energy affordability to be a pressing priority for many Californians. The legislature recognized the importance of these impacts in enacting SB X1-2. Given these already-significant impacts, it is critical for CARB to ensure that its proposed Cap-and-Trade Regulation amendments do not considerably increase California fuel costs. WSPA is concerned that proposed amendments to the Cap-and-Trade Regulation could further compromise the supply reliability of critical transportation fuels, a consequence of which could increase energy costs and further burden California drivers, conflicting with clear legislative priorities in SB X1-2.

Overall, WSPA encourages CARB to adopt a Cap-and-Trade program that can maintain a steady and stable carbon market in California, while facilitating the continued development of critical carbon-negative technologies and integrating these technologies into the Cap-and-Trade framework. WSPA also supports CARB's proposal to expand biogenic emission exemptions within the Cap-and-Trade program to recognize the growth of biofuels within the State since 2010. However, WSPA strongly opposes CARB's inclusion of 'hypothetical' reductions for 2021-2024 budgets when assessing allocation cap adjustments for 2025-2030. Retrospective or cumulative allowance mechanisms accounting for these 'hypothetical' reductions would lead to unrealistic reduction requirements in allowances allocated to industrial entities and natural gas suppliers through potential Cap Adjustment Factors (CAFs) changes.

³ CEC. 2023. California Oil Refinery Cost Disclosure Act Monthly Report: Aggregated Data Reported. July. Available at: <https://www.energy.ca.gov/data-reports/energy-almanac/californias-petroleum-market/california-oil-refinery-cost-disclosure>. Accessed: October 2023.

Our detailed comments are provided below:

1. CARB should not reduce industrial assistance allocations for 2025-2030 on 'hypothetical' reductions for historical inventories or allowance budgets.

CARB presented three scenarios that would adjust the 2025-2030 annual allowance budgets based on specific GHG reduction targets. These targets are 40%, 48%, or 55% from 1990 levels by 2030. As part of these adjustments, CARB presented hypothetical linear decline scenarios for 2021 to 2030 that estimated allowance reductions that *could have* been achieved beyond the 2016 Cap-and-Trade Regulation, based on information from the 2022 Scoping Plan Update, the updated 2021 GHG Emission Inventory, and recent State climate policy. The proposed 2025-2030 adjustment includes industrial assistance allocations that would decrease based on what could have been achieved under the hypothetical linear decline scenarios. For example, CARB's first scenario, based on a 40% GHG reduction target, would reduce initial 2021 allowances by **11.5 million**. In calculating this proposed allocation adjustment, CARB first determined the total reductions achieved between 2012 and 2015, as reflected by the 2017 and 2022 GHG inventories—13.7 MMTCO_{2e}— weighted by the level of Cap-and-Trade program participation, based on the percentage of AB 32 emission sources covered by the program—77%, as discussed in its July 27 workshop.⁴ WSPA would caution that 77% of 13.7 MMTCO_{2e} should be 10.5 MMTCO_{2e}. CARB then applied this *same* level of reduction to *all* years from 2021 to 2030, based on a supposed 'linear decline.' According to this method, CARB proposed the 'cumulative reduction target' would be 115 million allowances based on actual GHG reductions achieved *beyond* the targeted levels. To help ensure such a substantial reduction adheres to the original AB 32 cost effectiveness requirements, WSPA urges that any allowances removed from the program only be removed from those available in the price ceiling.

However, as WSPA has previously emphasized, adjusting the 2030 emission target based on actual achieved reductions in previous years will severely impact the stability and predictability of the Cap-and-Trade program and harm long-term decarbonization planning efforts. CARB's proposed methodology would create a disincentive for companies to take early action to maximize their GHG emissions reductions and set a concerning precedent that would undermine confidence in the Cap-and-Trade program by retroactively manipulating the allowance market. This is contrary to the existing Cap-and-Trade framework, which recognizes early actions and is built around encouraging companies to undertake longer-term, higher-capital investments that are necessary to achieve the State's carbon neutrality goals. CARB should reconsider this 'cumulative reduction target' method and assure companies that early actions they take will not be used against them to restrict

⁴ CARB. July 27, 2023. California Public Workshop: Potential Amendments to the Cap-and-Trade Regulation. Slide 22. Available at: https://ww2.arb.ca.gov/sites/default/files/2023-07/nc-CapTradeWorkshop_July272023_0.pdf. Accessed: October 2023.

their future activities. The 2030 emission target should be 40% of the 1990 base year (i.e., 199 MMT CO₂e) regardless of the actual GHG inventory values in interim years.

CARB's preferred scenario, based on a reduction target of 48%, creates additional challenges by artificially inflating required reductions well beyond the targets in AB 32. Under the 48% scenario, CARB would require a cumulative reduction of 265 million allowances by 2030, which assumes a 'linear decline' of 26.5 million every year from 2021 to 2030, equivalent to 8% of 1990 base year emissions from all AB 32 covered entities (e.g., 431 MMT CO₂e * 0.77 * 0.08 = 26.5 MMT CO₂e).⁵ CARB would therefore effectively be requiring all covered entities to achieve additional reductions equivalent to 8% of the 1990 base year GHG emissions starting from 2021 in order to meet the 48% reduction goal. However, this level of reduction is inconsistent with CARB's prior findings in the 2022 Scoping Plan Update, where CARB determined that a 48% reduction would be achieved by setting the 2030 budget at 173 million allowances.⁶ Instead, CARB's revised scenario would lower the 2030 budget to 139 million, an additional reduction of nearly 20%. This would place an unnecessary burden upon the California economy to achieve immediate additional emission reductions far greater than the 2022 Scoping Plan Update targets.

For example, all entities that received allowances within the industrial sector would be subject to substantial increases in compliance burdens based on CARB's proposed CAFs incorporating 'hypothetical' cumulative allowance reductions. Under the 2023 Vintage allocations, the total amount of allowances allocated to the industrial sector is approximately 34.6 million.⁷ Using this metric as a baseline and applying the current CAFs, the total allocation (in the aggregate) would decline to approximately 23 million by 2030 under the current Cap-and-Trade program, which represents overall reductions of just over 30%.⁸ However, under CARB's proposed 48% reduction scenario, the allowances to this sector would be cut down to (approximately) 16 million in 2030, a further 30% reduction beyond the current Regulation, which represents a cumulative reduction of approximately 32 million allowances to all entities in the industrial sector between 2025 and 2030.⁹

WSPA urges CARB to revise its methodology for calculating the annual budget and cumulative allowance reductions to eliminate consideration of 'hypothetical' reductions based on actual emissions levels in order to ensure that the Cap-and-Trade program remains consistent with AB 32, AB 398 (2017), and the 2022 Scoping Plan Update.

⁵ CARB. October 5, 2023. Cap-and-Trade Program Workshop: Potential Amendments to the Cap-and-Trade Regulation. Slide 16. Available at: https://ww2.arb.ca.gov/sites/default/files/2023-10/nc-CapTradeWorkshop_Oct052023_0.pdf. Accessed October 2023.

⁶ Ibid.

⁷ CARB. 2022. Cap-and-Trade Program Vintage 2023 Allocation Summary. Available at: <https://ww2.arb.ca.gov/sites/default/files/2022-12/nc-v2023%20Public%20Allocation%20Summary.pdf>. Accessed: October 2023.

⁸ Ramboll calculation based on application of CARB's published CAFs for 2024-2030, and CARB's reported 2023 vintage allocation in the Natural Gas Suppliers sector. Actual allowances are subject to change based on production data.

⁹ Ibid.

2. CARB has not provided stakeholders with information to support a finding that a 55% GHG reduction target compared to 1990 levels is technologically feasible by 2030.

CARB's 55% GHG reduction target scenario is not technologically feasible. In modeling used to support its 2022 Scope Plan Update, CARB found that even a 48% GHG reduction target may not be achievable by 2030. As CARB acknowledged in the July 27th and October 5th workgroup meetings,^{10,11} the Scoping Plan's carbon neutrality target was *only* achievable by relying on a significant amount of mechanical CDR, CCUS, and renewable hydrogen, among other carbon-negative and low-carbon technologies. However, achieving a 48% reduction by 2030 will require significant *additional* reductions that will further depend on these technologies, but at present, these technologies have not been deployed at rates necessary to meet this target. These concerns would only be amplified under a 55% reduction target scenario.

AB 32 requires CARB to consider technological feasibility and cost-effectiveness in regulating GHG emissions. WSPA has expressed concerns on the feasibility of the 55% scenario in previous comment letters.¹² CARB has not provided stakeholders with information to find that a 55% GHG reduction target might be achievable, however, WSPA understands that the Environmental Justice Advisory Committee (EJAC) has requested the 55% scenario be included. If this scenario continues to be included in discussions about the Cap-and-Trade program, CARB must also include modeling of the leakage risks that will result from the reduction when discussing the viability of this scenario.

WSPA continues to urge CARB to consider near-term reductions using readily available technologies, in accordance with AB 32's statutory mandate. CARB must set reduction targets based on achievable limits using these technologies, while facilitating investment in emerging technologies like CDR and CCUS in order to increase the scale at which these technologies can be deployed. Mandating infeasible reductions now will harm these efforts. For similar reasons, CARB must also consider the cost-effectiveness of these reductions in order to comply with AB 32's legislative directive and to encourage investment in CDR and CCUS technologies.

3. CARB should freeze the current allowance caps to allow adequate time to develop and deploy CDR and CCUS technologies.

As detailed above, CARB's proposed methodology for incorporating 'hypothetical' cumulative allowance reductions based on additional reductions achieved in early

¹⁰ CARB. July 27, 2023. California Public Workshop: Potential Amendments to the Cap-and-Trade Regulation. Available at: https://ww2.arb.ca.gov/sites/default/files/2023-07/nc-CapTradeWorkshop_July272023_0.pdf. Accessed: October 2023.

¹¹ CARB. October 5, 2023. Cap-and-Trade Program Workshop: Potential Amendments to the Cap-and-Trade Regulation. Slide 16. Available at: https://ww2.arb.ca.gov/sites/default/files/2023-10/nc-CapTradeWorkshop_Oct052023_0.pdf. Accessed October 2023.

¹² WSPA. 2023. WSPA Comments on 7-27-2023 Cap-and-Trade Workshop. Available at: https://ww2.arb.ca.gov/system/files/webform/public_comments/5326/WSPA%20Cap-and-Trade%20July%202023%20Workshop%20Comments%208-17-2023.pdf. Accessed: October 2023.

implementation years will significantly reduce the 2025-2030 allowance budgets and will result in a dramatic and rapid reduction of allowances allocated to all industrial facilities, far beyond what was anticipated under the previous rulemaking.

CARB's preferred scenario is based on a 48% reduction target, consistent with recommendations from the 2022 Scoping Plan Update. That Scoping Plan determined that the 2030 GHG reduction target should be accelerated from 40% to 48% in order to meet the AB 1279 (2022) target of 85% below 1990 levels by 2045.¹³ However, the Update recognized that achieving this level of reductions is dependent on the *immediate deployment* of CCUS and CDR technology, 20 MMTCO₂e by 2030 and 100 MMTCO₂e by 2045. While WSPA agrees that CCUS and CDR are absolutely necessary elements to achieve a 48% reduction target, consistent with the 2022 Scoping Plan Update, the feasibility of implementing these technologies at the required scale is still uncertain. No such projects have yet been implemented at scale in the State. CARB's 48% reduction scenario anticipates that nearly 20% of the 265 million cumulative allocation reductions would come from the transportation sector. However, these reductions will not be feasible without the deployment of CCUS and CDR technologies. As discussed in WSPA's comments on the AB 32 Scoping Plan Recirculated Environmental Analysis dated October 24, 2022,¹⁴ deploying these technologies will require the State to make substantial changes to streamline and speed-up permitting for CCUS projects. WSPA urges CARB to take action to incorporate the CCS Protocol into the Cap-and-Trade Regulation in order to incentivize petroleum refineries to participate in CCS projects. The current Cap-and-Trade Regulation allows suppliers of CO₂ to subtract emissions from their compliance obligation through a Board-approved carbon capture and geologic sequestration quantification methodology that ensures that the emissions reductions are real, permanent, quantifiable, verifiable, and enforceable. However, the Regulation also requires the Board-approved quantification methodology to be incorporated into the Regulation before it can be used to reduce a compliance obligation.¹⁵ WSPA requests that CARB incorporate a "quantification methodology" (i.e., a CCS protocol) into the Cap-and-Trade Regulation or remove the requirement for incorporating the Board-approved quantification methodology in the Regulation.

Following the adoption of SB 905 (2022),¹⁶ WSPA recommended that CARB work with the Office of Planning and Research to develop an improved project environmental review under the California Environmental Quality Act (CEQA) to ensure that regulatory

¹³ CARB. 2022. 2022 Scoping Plan Update. Available at: <https://ww2.arb.ca.gov/sites/default/files/2023-04/2022-sp.pdf>. Accessed: October 2023.

¹⁴ WSPA. Comments on the Recirculated Draft Environmental Analysis for the Draft 2022 Scoping Plan Update. October 24, 2022. Available at: <https://www.arb.ca.gov/lists/com-attach/35-sp22-recirc-ea-ws-UzICZlCJAmlKPIAP.pdf>. Accessed: October 2023.

¹⁵ CARB. Cap and Trade Regulation Section 95852 (g). 2018. Available at: https://ww2.arb.ca.gov/sites/default/files/2021-02/ct_reg_unofficial.pdf. Accessed October 2023.

¹⁶ SB 905, Chapter 359, Statutes of 2022, Section 71465(a). Available at: https://leginfo.ca.gov/faces/billNavClient.xhtml?bill_id=20210220SB905. Accessed: October 2023.

proceedings do not unjustly stall or halt these crucial technologies. Other concerns include (1) the lack of clarity of authority between CARB and its sister agencies regarding permitting of technologies, installation of pipelines, and land use authorities and (2) the prohibition of use of pipelines to transport CO₂ until a federal rulemaking is completed by the Department of Transportation's Pipeline and Hazardous Materials Safety Administration (PHMSA), which could take years to finalize. If not addressed, these issues will cause significant delays and interfere with the State's ability to meet near-term reduction targets.

In light of these potential delays and the centrality of CCUS to the proposed Cap-and-Trade targets, along with the concerns raised in the previous points, WSPA recommends that CARB freeze the reduction of allowance caps under the current Cap-and-Trade program until at least one large-scale CCUS project has been successfully implemented. Once it has been demonstrated that CCUS can be deployed in California and a roadmap has been provided for permitting and infrastructure development, CARB could include an assumed rate of CCUS deployment along with other market signals to determine the appropriate rate of statewide GHG reductions. This approach could result in a non-linear reduction, beginning with gradual reductions in the early years and leading to more rapid decreases in the later years of the program when CCUS technologies are readily available.

Including CCUS under the Cap-and-Trade program would incentivize the deployment of CCUS technologies in line with the 2022 Scoping Plan Update's schedule and will still achieve the same overall reductions without jeopardizing industry's ability to meet the reduction targets or penalizing them for regulatory delays outside of their control. This approach would also be more consistent with AB 32's clear directives that CARB consider technical feasibility and cost-effectiveness in promulgating its regulations.

4. CARB's proposed adjustments to the Cap-and-Trade framework will increase fuel costs in California, which is inconsistent with the legislature's directive in SB X1-2.

CARB has taken several recent actions to address emissions from the transportation sector by increasing the number of zero-emission vehicles (ZEVs). For instance, CARB recently finalized its Advanced Clean Cars II and Advanced Clean Fleets regulations requiring significant increases in ZEV sales through 2035 and 2040.^{17,18} However, CARB has acknowledged that internal combustion engine vehicles will continue to operate in California well past 2035, even with CARB's 100% ZEV sales mandates. Reducing transportation emissions therefore requires CARB to continue to consider and address internal combustion engine vehicles and petroleum and alternative transportation fuels.

¹⁷ CARB. 2022. Advanced Clean Cars II. Available at: <https://ww2.arb.ca.gov/rulemaking/2022/advanced-clean-cars-ii>. Accessed: October 2023.

¹⁸ CARB. 2023. Advanced Clean Fleets. Available at: <https://ww2.arb.ca.gov/our-work/programs/advanced-clean-fleets>. Accessed: October 2023.

SB X1-2 requires State agencies to “ensure that the supply of petroleum and alternative transportation fuels is affordable, reliable, equitable, and adequate.”¹⁹ WSPA has been working diligently with the California Energy Commission (CEC) and CARB as they develop the Transportation Fuels Assessment Report and Transportation Fuels Transition Study to facilitate a transition to a carbon neutral transportation sector. Consistent with SB X1-2, this transition must minimize market volatility and impacts to fuel costs.

As proposed, the combined impacts of the Cap-and-Trade and LCFS programs may significantly increase transportation fuel costs. CARB’s proposed adjustments to the Cap-and-Trade allocation cap starting in 2025 will substantially increase the program compliance cost for the industry, as detailed above, which will likely have adverse impacts to transportation fuel costs for consumers. At the same time, CARB is considering a potential step down of the carbon intensity benchmark in 2025 for its LCFS program, which may range from 2%-5%.²⁰ CARB’s Standardized Regulatory Impact Assessment (SRIA) estimates that the proposed LCFS amendments will increase gasoline and diesel cost in 2025 by \$0.47 and \$ 0.59 per gallon, respectively.²¹

These proposed programmatic updates will exacerbate existing state-wide issues that already impact transportation fuel costs. As of July 2023, California’s motor vehicle fuel excise tax rate has increased to \$0.58/gallon.²² This tax is increased every calendar year based on the California Consumer Price Index (CPI) for inflation. The California Legislative Analyst’s Office (LAO) expects the annual inflation to remain at around 4%,²³ which indicates that the tax rate in July 2025 will increase to approximately \$0.62/gallon. Under this tax rate, consumers will already bear heightened fuel transportation costs that will be substantially increased under CARB’s current Cap-and-Trade and LCFS proposals.

The combined impact of these factors will result in increased fuels costs in 2025, counter to the legislature’s express directive in SB X1-2. CARB must account for cumulative cost impacts when designing and updating the suite of regulations that could impact the transportation fuels industry and all Californians.

¹⁹ SB X1-2. Available at: https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202320241SB2. Accessed: October 2023.

²⁰ CARB. May 23, 2023. LCFS Public Workshop: Auto-Acceleration Mechanism and Step Down Benchmark Considerations. Available at: https://ww2.arb.ca.gov/sites/default/files/2023-05/LCFSPresentation_052223_0.pdf. Accessed: October 2023.

²¹ CARB. September 8, 2023. Low Carbon Fuel Standard 2023 Amendments Standardized Regulatory Impact Assessment (SRIA). Available at: https://ww2.arb.ca.gov/sites/default/files/2023-09/lcfs_sria_2023_0.pdf. Accessed: October 2023.

²² California Department of Tax and Fee Administration (CDTFA). Sales Tax Rates for Fuels. Available at: <https://www.cdtfa.ca.gov/taxes-and-fees/sales-tax-rates-for-fuels.htm>. Accessed: October 2023.

²³ California Legislative Analyst’s Office (LAO). November 2022. The 2023-24 Budget: Considering Inflation’s Effects on State Programs Sales Tax Rates for Fuels. Available at: <https://lao.ca.gov/reports/2022/4647/Inflation-Effects-on-State-Programs-111622.pdf>. Accessed: October 2023.

5. CARB should ensure that any post-2030 reductions targets provide adequate flexibility to encourage large-scale reduction projects.

At the outset, as WSPA has previously explained in its comment letter dated August 17 2023,²⁴ CARB requires legislative authorization to extend the Cap-and-Trade program beyond 2030, which includes the proposed 30.3 million allowance target in 2045.²⁵ WSPA encourages CARB to work with the State Legislature to establish legally defensible post-2030 targets that will send clear market signals for the multi-decade capital investments industries will make to deploy decarbonization technologies.

With respect to post-2030 reduction targets, CARB has proposed two options for determining the 2031-2045 allowance budget: (1) capping 2030 allowance at a value that is consistent with emission reduction target below 1990 levels (i.e., 40%, 48%, and 55%) for the scenario (Emission Target Method); or (2) projecting future budgets from an adjusted 2030 allowance cap that incorporates cumulative achieved emissions reductions (Allowance Budget Method). WSPA strongly encourages CARB to base post-2030 budgets on a 2030 value that is consistent with emission reduction target from 1990 levels. This approach aligns with the statewide net-zero goals. In contrast, projecting future budgets based on CARB's target allowance budget exacerbates existing issues with CARB's proposed 2025-2030 budget adjustment, as explained by WSPA in Comment 1, and is not suitable as the starting point or baseline for the future trajectory.

CARB determined in its 2022 Scoping Plan Update that its 2030 reduction target should be accelerated from 40% to 48% in order to achieve AB 1279's 85% reduction target by 2045.²⁶ A 48% reduction target translates to a Cap-and-Trade budget of 173 million allowances in 2030.²⁷ The Emission Target Method reasonably approximates the long-term Cap-and-Trade allowance trajectory under this scenario. By contrast, the Allowance Budget Method uses a starting budget of 139 million allowances in 2030, which represents a 58% reduction from 1990 levels. However, CARB lacks authority to impose these heightened reduction requirements through 2030, which go well beyond the targets set by AB 32. The Allowance Budget Method would *exacerbate* this issue, significantly increasing the stringency of long-term emissions reduction targets without an adequate legal or technical basis. This Method would reduce 235 million additional allowances as compared to the Emission Target

²⁴ WSPA. 2023. WSPA Comments on 7-27-2023 Cap-and-Trade Workshop. Available at: https://ww2.arb.ca.gov/system/files/webform/public_comments/5326/WSPA%20Cap-and-Trade%20July%202023%20Workshop%20Comments%208-17-2023.pdf. Accessed: October 2023.

²⁵ CARB. October 5, 2023. Cap-and-Trade Program Workshop: Potential Amendments to the Cap-and-Trade Regulation. Available at: https://ww2.arb.ca.gov/sites/default/files/2023-10/nc-CapTradeWorkshop_Oct052023_0.pdf. Accessed: October 2023.

²⁶ CARB. 2022. 2022 Scoping Plan Update. Available at: <https://ww2.arb.ca.gov/sites/default/files/2023-04/2022-sp.pdf>. Accessed: October 2023.

²⁷ CARB. October 5, 2023. Cap-and-Trade Program Workshop: Potential Amendments to the Cap-and-Trade Regulation. Available at: https://ww2.arb.ca.gov/sites/default/files/2023-10/nc-CapTradeWorkshop_Oct052023_0.pdf. Accessed October 2023.

Method,²⁸ with over two-thirds of these allowance reductions occurring in the first 5 years (i.e., 2031-2036, Table 1).

Both of these Methods also fail to incorporate needed flexibility for industrial facilities to facilitate long-term reduction strategies. This problem is most apparent under the Allowance Budget Method—this Method is based on a trajectory that falsely assumes the long-term feasibility of all short-term compliance methods and fails to recognize the long lead time for investment in sustainable and low-carbon initiatives. Basing post-2030 allowance budgets on this Method will therefore constrain the ability of industry to further invest in large-scale capital projects that are necessary to achieve the long-term emission targets but may not yield immediate reductions.

However, the Emission Target Method suffers from a similar problem. This Method bases post-2030 allowance budgets on a linear reduction trajectory, which assumes a consistent rate of emissions reductions between 2030 and 2045, using the 2030 target as the starting point and 30.3 million allowances in 2045 as the endpoint. However, this Method is oversimplified and does not fully account for the implementation timelines for large-scale carbon reduction programs.

Table 1. Estimated Annual Allowances (million) Under the 48% Scenario²⁹			
Calendar Year	Option #1: Emission Target Method	Option #2: Allowance Budget Method	Cumulative Allowance Difference From 2031
2030 (base year)	172	139	--
2031	163	132	31
2032	153	125	60
2033	144	117	87
2034	135	110	112
2035	125	103	134
2036	116	96	154
2037	106	88	172
2038	97	81	187
2039	87	74	201
2040	78	67	212
2041	68	59	221

²⁸ Ibid

²⁹ Data for the 2030 base year and 2045 end year are from CARB's October 5th Cap-and-Trade Program Workshop. Available at: https://ww2.arb.ca.gov/sites/default/files/2023-10/nc-CapTradeWorkshop_Oct052023_0.pdf. Accessed October 2023. For the middle years, linear interpolation was tabulated by Ramboll based on the method described by CARB in the slides.

Table 1. Estimated Annual Allowances (million) Under the 48% Scenario²⁹			
Calendar Year	Option #1: Emission Target Method	Option #2: Allowance Budget Method	Cumulative Allowance Difference From 2031
2042	59	52	227
2043	49	45	232
2044	40	38	234
2045	30.3	30.3	235
2031-2045 Total	1450	1215	235

WSPA strongly encourages CARB to adjust its post-2030 reduction targets to better facilitate long-term reduction strategies by imposing fewer reductions in earlier years and increasing reductions in later years. This strategy would still allow California to meet its reduction targets, while being more consistent with the long-term planning and significant up-front capital investment necessary to install large-scale emissions controls. Using this approach, CARB would encourage innovation and would facilitate more cost-effective reductions, consistent with the requirements of AB 32.

6. WSPA supports CARB’s proposal to update biogenic emission exemptions in the Cap-and-Trade program to support low-carbon fuel production and use in California.

WSPA encourages CARB to expand the exemptions for biogenic emissions which are essential for continued production of renewable fuels in California, including sustainable aviation fuels and propane.

Exempting biogenic emissions encourages the continued development of low-carbon and carbon-negative technologies. Biogenic feedstocks can be utilized in hard-to-decarbonize and hard-to-electrify sectors. Electrical grid infrastructure upgrades, as addressed in the 2022 Scoping Plan Update, require extended implementation timelines—biogenic fuels are readily available and help secure near-term emissions reductions while these upgrades are implemented. In addition, increased reliance on renewable generation, combined with significant increases in electricity demand due to the electrification of additional sectors of the economy, may create intermittency or reliability challenges—biogenic fuels can help mitigate these risks by providing reliable, consistent power.

Exempting biogenic emissions is consistent with existing State programs seeking to expand carbon reduction potential in natural and working lands. SB 1383 (2016)³⁰ and ongoing

³⁰ Senate Bill 1383. Short-Lived Climate Pollutant Reduction Law. September 19, 2016. Available at: https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201520160SB1383. Accessed: June 2023.

forestry management programs³¹ will expand the supply of biogenic feedstocks that can be utilized in hard-to-decarbonize and hard-to-electrify sectors.

CARB should ensure that the biogenic fuel provisions in the Cap-and-Trade program align with existing requirements in the LCFS program and the Mandatory Greenhouse Gas Reporting Regulation (MRR). While both the LCFS and Cap-and-Trade programs regulate the transportation fuel production and use in California, there are inconsistencies among these two programs, including program scope and quantification mechanisms. WSPA recommends that CARB form a separate working group to address changes to the MRR that are necessary for consistent reporting and compliance requirements for biogenic fuels across Cap-and-Trade, LCFS, and MRR. The goal of this alignment should be to support the low-carbon transportation fuel production and use in California.

Thank you for considering our comments. We would welcome the opportunity to discuss these concerns in more detail. If you have any immediate questions, please feel free to contact me at tderivi@wspa.org. We look forward to working with you on these important issues.

Sincerely,



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³¹ CARB. Draft California 2030 Natural and Working Lands Climate Change Implementation Plan, January 2019. Available at: <https://ww2.arb.ca.gov/sites/default/files/2019-06/draft-nwl-ip-040419.pdf>. Accessed: October 2023.