



Shell
ENERGY

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California Air Resources Board

Via Upload to www.arb.ca.gov

RE: Comments on November 16 Joint Workshop on Cap-and-Trade Regulation

To the California Air Resources Board:

Shell Energy North America (US), L.P. (“Shell Energy”) markets and trades natural gas, power and environmental products and provides risk management support to wholesale and retail customers throughout North America. Shell Energy is also a covered entity under California’s Cap-and-Trade program. Shell Energy welcomes the opportunity to comment on Potential Amendments to the Cap-and-Trade Regulation, as discussed at the Joint California-Quebec Workshop on November 16.

California’s Cap-and-Trade program is a longstanding and predictable regulatory framework that has achieved significant greenhouse gas (GHG) emissions reductions in the state. Shell Energy supports California’s intent to increase the program’s ambition to meet climate goals for 2030 and 2045. As the jurisdictions consider changes to the various design elements of the program, ensuring affordability must remain a key consideration. The Joint Presentation rightly notes, “cost-effectiveness is an important element of program design” and enumerates elements needed to optimize cost-effectiveness.¹ With this lodestar in mind, Shell Energy respectfully submits the following comments.

Cost Containment

Both Quebec and California have noted the importance of cost-effectiveness in the cap-and-trade program design. Shell Energy believes multi-year compliance periods, unlimited allowance banking, use of offset credits, the Allowance Price Containment Reserve and the price ceiling are all critical to supporting cost-effective compliance. Shell Energy supports maintaining the volume of allowances currently available in price containment features.

Shell Energy believes current price control mechanisms are already adequate. Both California and Quebec already have the ability to withhold unsold auction allowances when demand is low and to transfer unsold auction volume into reserve after set periods of time. The program’s Allowance Price Containment Reserve already exists to address high auction settlement prices through auctioning additional allowances via reserve sales. The introduction of a mechanism to adjust auction supply based on recent auction settlement prices would add significant complexity to the Cap-and-Trade program.

¹ Joint Presentation at Slide 53, available at: https://ww2.arb.ca.gov/sites/default/files/2023-11/nc-combinedSlides_Nov162023.pdf.

Offsets

Offsets play an important role in the cap-and-trade program, providing compliance flexibility and cost containment for regulated parties, which translates into greater affordability for consumers. The escalating carbon prices modelled for Quebec and California further underscore the important role for offsets as a cost containment mechanism.

Holding limits

Shell Energy believes the holding limit should be increased in the context of declining allowance budgets starting in 2025. Entities have already purchased 2025 and 2026 vintage allowances under the assumption that the holding limit would be based on the current cap trajectory. A robust holding limit helps reduce price volatility and increases liquidity as the number of available allowances declines. Shell Energy recommends that both jurisdictions add a factor in the holding limit equation that represents the difference between the current cap and the proposed amended cap for 2025 onward. At a minimum, this adjusted holding limit approach should apply to covered entities.

As for the limited exemption, Shell Energy believes the covered entity-specific calculations should be maintained as is.

Banking and trading requirements

The current banking and trading rules provide critical compliance flexibility while helping to avoid price spikes and collapses. Reducing volatility and maintaining the steadily increasing price signal is critical to incentivize investment in emissions reductions. Shell Energy believes current banking and trading rules should not be modified and that it is unnecessary to introduce duration limits on allowance holdings or minimum trade requirements.

Future market linkage

Shell Energy supports further market linkage and encourages California to ensure jurisdictions have demonstrated program stability and linkage readiness prior to pursuing formal linkage. For example, program stability includes predictable and formulaic determination of reserve auction volumes embedded within regulation, rather than ad hoc methodologies and adjustments. It will also be critically important to follow robust regulatory and consultation processes given the significant market implications associated with linkage.

Shell Energy appreciates the jurisdictions' continued collaborative approach in reviewing the Cap-and-Trade system to ensure its long-term effectiveness and look forward to continued engagement through the review process.

Respectfully submitted,



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