

Joint Legislative Committee on Climate Change Policies
Informational Hearing
May 24, 2018



CALIFORNIA
AIR RESOURCES BOARD

Approach to Current Rulemaking

- Continue market design for steady, predictable, increasing floor price, with a declining cap, to prompt investments and actions to achieve mid- and long-term GHG reductions
- Carbon price signal should conform to legislation and maintain integrity of the pre-2021 period of the Program
- Avoid penalizing covered entities in response to early action to reduce GHGs or investments in allowances
- Maintain and continue to attract linkage partners
- Maintain benefits of Program's market features
 - Cost-effective through opportunities to identify lowest GHG reductions across economy
 - Compliance flexibility through trading and multiyear compliance periods
 - Minimize leakage

Assessing Post-2020 Caps

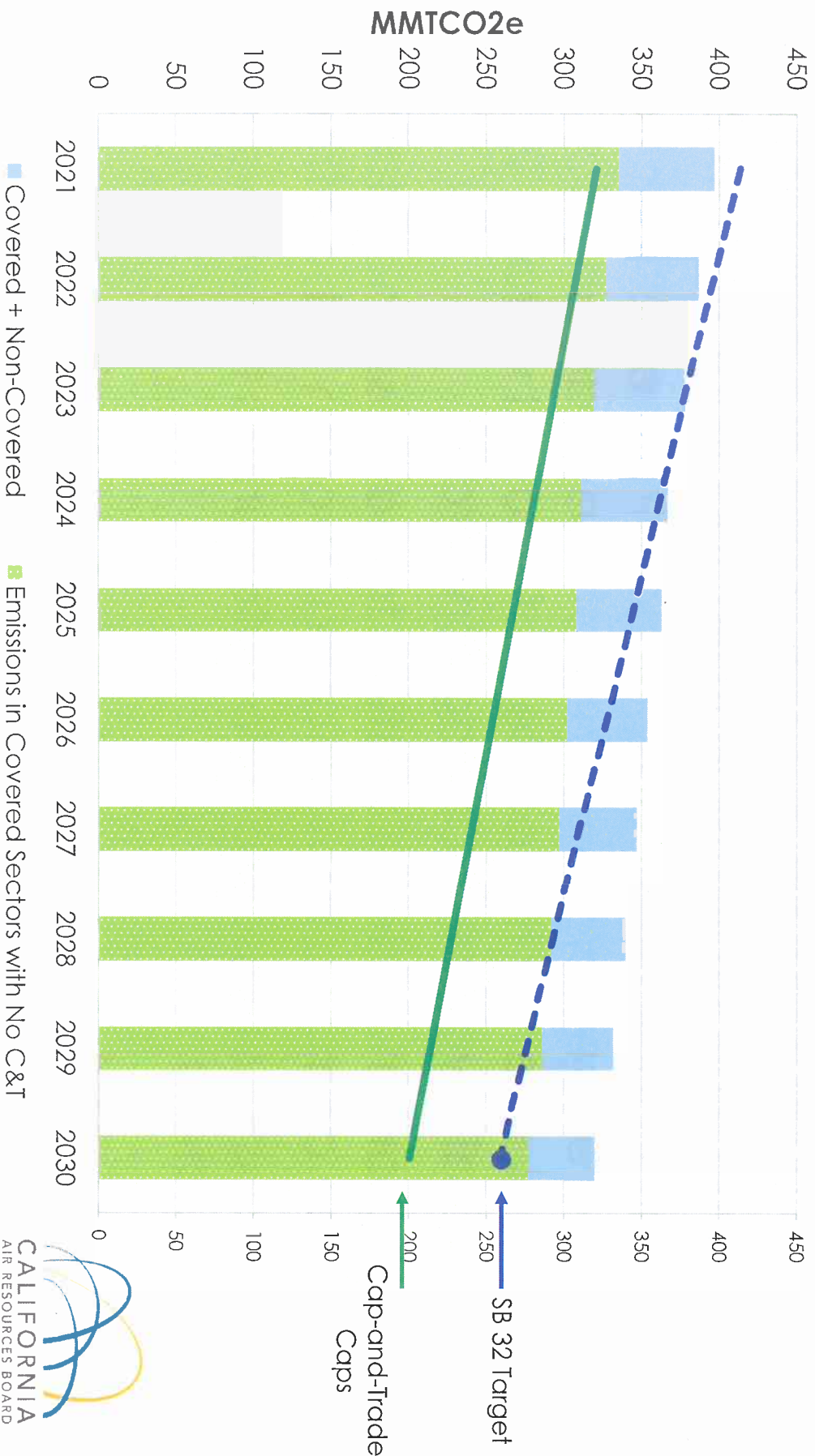
- ▣ The term “overallocation” is used to reference the fact that covered emissions have been lower than the annual caps
- ▣ Post-2020 annual caps build off the current caps and avoid situations that were encountered in RGGI and EU ETS
- ▣ Some believe the unused pool of allowances will hinder ability to achieve the 2030 target
- ▣ Avoid penalizing covered entities by making Program more stringent in response to early action to reduce GHGs or investments in allowances
 - ▣ Would incent entities to only do minimum
- ▣ Avoid introducing future allowance scarcity that will increase prices today for compliance and consumers

Understanding Uncertainty

- ▣ Sources of uncertainty must be considered when discussing unused allowances and post-2020 caps
 - ▣ Projections of future covered emissions
 - ▣ performance of other GHG programs
 - ▣ population and economic growth projections
 - ▣ Usage rate and availability of offset credits
 - ▣ Abatement opportunities in linked jurisdictions
 - ▣ Quantity and timing of unsold allowances moving into the Reserve after eight auctions
- ▣ Allowance retirements for environmental integrity

Post-2020 Caps in Current Regulation

Forecasted GHG Emissions without Cap-and-Trade Reductions



Summary: Post-2020 Caps Analysis

- Post-2020 caps are currently set in the Regulation as a decreasing straight-line trajectory from 2020 to 2030
- Analysis indicates caps will constrain emissions from covered sectors to support steady carbon price signal, even in the context of unused vintage 2013-2020 allowances carrying forward
- Program includes a feature to address uncertainty when demand is low that has proven to be effective
- Transfer of unsold auction allowances to Reserve after 8 auctions
- Staff is taking comment on the analysis

Reporting and Oversight

Ongoing monitoring and reporting provides opportunities for public input, Board feedback, and adjustments if needed

- ▣ CARB annual Greenhouse Gas Inventory (data) and annual Mandatory GHG Reporting Data
- ▣ Annual status report to the Board on Scoping Plan implementation
- ▣ Update to AB 32 Scoping Plan at least once every 5 years (written report)
- ▣ SB1018 (written reports)
 - ▣ Semi-annual update on key climate programs
 - ▣ Semi-annual report on actions proposed by WCI, Inc.
 - ▣ Annual fiscal report on prior fiscal year
 - ▣ Annual resource report on resources by major program area

Reporting and Oversight, cont.

- ▣ AB 197
 - ▣ Annual informational report by CARB Chair on emissions covered by Scoping Plan
- ▣ AB 398
 - ▣ Annual report by the Independent Market Advisory Committee on environmental and economic performance of relevant climate policies
 - ▣ Annual report by the Legislative Analyst Office on the economic impacts and benefits of specified greenhouse gas emissions targets