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October 1, 2018

To: IEMAC

COMMENTS ON IEMAC SUBCOMMITTEE REPORTS

We appreciate the time and effort devoted by the Independent Emission Advisory Committee (IEMAC) in the development of the subcommittee reports and also thank you for allowing an open discussion at the September 21, 2018 committee meeting. The following comments are provided as a follow up to the verbal comments made by Susan Wood during the meeting.

SUBCOMMITTEE REPORT ON OFFSETS

1. Offset prices are linked to allowance prices in that they trade at a slight discount to the allowance price. However, the cost of high-quality offset prices (especially anaerobic digestors) is generally higher than the current price of allowances and is limiting the number of projects being developed in other protocols. If the price of allowances continues to trade at the auction price floor, the forward price curve still does not provide the appropriate price incentive for offset projects (see comments on overallocation report).

2. We support the recommendation of the language to clarify how a project qualifies for DEBS designation and suggest the following additional language (in italics) just to remove any ambiguity.

    a. …to qualify as an offset credit providing direct environmental benefits in state, a project must reduce or avoid not only greenhouse gas emissions but at least one additional air *pollutant in the state* or water pollutant that "could have an adverse impact on waters of the state."

3. See attached white paper ("A Case for Offsets") authored by Dentons in March 2017 for additional comments and information.

SUBCOMMITTEE REPORTS ON MANAGING ALLOWANCE SUPPLY & ALLOWANCE OVERALLOCATION

1. We agree that there is likely an oversupply of allowances in the market currently and in the future (post-2020). Following the 9-21-18 meeting, we were provided with additional data from IEMAC on this subject and we agree that further investigation or a more detailed explanation of future projected supply by CARB is warranted.

2. We support IEMAC's recommendation to reduce the post-2020 active market allowance supply by moving allowances into the post-2020 "Reserve Tiers" and "Price Ceiling" (Section 4(4)(a) of the Subcommittee Report on Managing Allowance Supply").

3. Some additional thoughts on why the market seems overallocated:

   a. A clear sign indicating that there has been a historical and current oversupply of allowances in the market is that allowances have continually traded at or near the auction price floor.

   b. Prior to 2013, allowance prices were much more volatile and traded based on industry and regulatory news. However, since program implementation, the allowance price has traded near the auction price floor and any industry or regulatory news has had very little effect on allowance prices.

   c. The market has become complacent and seems comfortable that there is an adequate allowance supply now, and in the future, and has very little concern that allowance prices will rise to any significance above the auction price floor.

4. By reducing allowance supply post-2020 and forcing allowance prices to trade based on the true supply and demand in the market, as opposed to just trading around the auction floor price, this should provide CARB with a better indication of the actual state of over or under-supply in the market at any given time.

5. An increased and more volatile allowance price will incentivize compliance entities and market participants to participate more actively in the market and strongly consider offsets and investing in offset projects as a path towards compliance. The majority of compliance entities do not use offsets for compliance due to the complications associated with contracting and guarantees with the project developer. Additionally, because offsets trade at such a small discount to allowances, there is not an incentive for buyers to take the risks associated with offsets.

<u>SUBCOMMITTEE REPORT ON PRICE CEILING CONSIDERATIONS</u>

1. We support the recommendation that offsets to be used for price containment units (PCUs) should the price ceiling be reached and allowances available at that price are exhausted.

2. We recommend the use offsets from the voluntary registries (ACR, CAR, & Verra) be used to meet this obligation.

3. We support the recommendation for CARB to "design the program so that investments in a reserve of emissions to account for the possible use of price ceiling units occurs before they might be brought into the program. This advance investment would have the indirect benefit of identifying new protocols for out of market emissions reduction opportunities."

4. We recommend the minimum price CARB may purchase offsets to meet this obligation be set at the auction price floor.

5. We support the recommendation of using "…a ratio greater than ton per ton…" of offsets.

<u>SUBCOMMITTEE REPORT ON OVERLAPPING POLICIES</u>

1. We support the recommendation that there are policies that overlap with the cap-and-trade program by targeting the same regulated entity more than once.

2. We support the conclusion that this overlap can lead to an oversupply of allowances that may dampen prices in the cap-and-trade market.

3. We also suggest that the overlapping policies affect the ability for CA to meet its reduction targets.

    a. For example: Total reductions required to meet 2030 goal are 620m tonnes (38%) from cap-and-trade and 1.1b tonnes (68%) from regulatory policies. Assuming both programs meet their goals but 20% (1.1b x 0.20 = 220m) of the regulatory policy reductions comes from cap-and-trade covered sources, this reduces cap-and-trade's net contribution to 400m (620m – 220m) even though it will be recorded as a 620m reduction.

4. Regulatory policies dictate how reductions must be met while cap-and-trade does not. How an entity meets their emissions allocation is up to them and, therefore, this does not restrict reductions from a regulatory policy being used to meet cap-and-trade obligations and result in double-counting.

5. We recommend CARB consider requiring compliance entities to report their GHG reductions resulting from compliance with regulatory policies other than cap-and-trade.

We appreciate the opportunity to submit these comments to the IEMAC. If you have any questions, please do not hesitate to call (203-561-9116) or email (swood1234@gmail.com) Susan.

Respectfully,

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