

Independent Emissions Market Advisory Committee
California Environmental Protection Agency
Sacramento, CA and remote participation via Zoom
1:00pm to 3:00pm PDT, October 16, 2024

Meeting minutes — October 16, 2024

1. Call to order, roll call, and establishment of quorum

IEMAC voting members Burtraw, Cullenward, Fowlie, Holt, and Sutter were present.
IEMAC non-voting member Kerstein was present.

Chair Fowlie announced the presence of a quorum and brought the meeting to order at 1:02pm.

2. Welcome, introductions, and meeting purpose

Chair Fowlie welcomed the committee members and members of the public.

No action was taken.

3. Welcome to new Observer Helen Kerstein

Chair Fowlie and the committee welcomed the new non-voting Observer, Helen

Kerstein. No action was taken.

4. Discussion and possible action to approve minutes from August 7, 2024

Cullenward made a motion to approve the minutes from August 7, 2024; Burtraw seconded. An opportunity for public comment followed, with no comments offered.

Votes in favor: Burtraw, Cullenward, Fowlie, Holt, Sutter

Votes in opposition: None

Not voting: Kerstein

The minutes were approved.

5. Discussion of Cap-and-Trade Program regulatory process

Chair Fowlie discussed recent developments in the cap-and-trade program regulatory process, including a public announcement from the California Air Resources Board from October 15, 2024, which identified an expectation to release proposed program regulations for public comment “in the coming weeks” and identified the likely topics for potential rulemaking. Chair Fowlie discussed the possibility of interacting with Board staff in future meetings and shared that Board staff will not participate in the IEMAC meetings during any public open comment periods.

The IEMAC discussed the procedural steps that would be involved in a public comment period and the timeline announced by the Board.

No action was taken.

6. Discussion and possible action to adopt proposed timeline for Annual Report

Chair Fowlie proposed a potential timeline for the committee’s Annual Report:

November 6, 2024:	Discuss working chapter drafts IEMAC meeting
December 9, 2024:	Chapter authors complete working drafts
December 18, 2024:	Discuss final drafts ready to be presented
December 20, 2024:	Draft annual report released for public comment
January 17, 2025:	Public comments due
January 24, 2025:	Target release date for final publication

Chair Fowlie proposed the timeline above; Cullenward seconded. An opportunity for public comment followed, with one member of the public asking whether the IEMAC had any contingency plan with respect to the timing of its November 6th meeting. Chair Fowlie indicated that the IEMAC did not have any contingency plans but would confer more prior to the next meeting.

Votes in favor:	Burtraw, Cullenward, Fowlie, Holt, Sutter
Votes in opposition:	None
Not voting:	Kerstein

The timeline was adopted.

7. Presentation and discussion of chapter outlines for Annual Report

a. Allowance allocation and auction revenues

Cullenward introduced a working outline for the chapter, which would focus on summarizing existing public data from the program to describe the quantity and

approximate value of different ways allowances enter the market through multiple free allocation mechanisms and allowance auctions.

The committee discussed whether to include the value and issuance of offset credits here or in a separate chapter on offsets, as well as challenges associating with estimating the value of free allowance allocation and offset issuance.

The committee discussed making this chapter an early chapter in the report, with broad and succinct coverage of topics that cross-references other chapters and/or previous committee reports for additional details.

No action was taken.

b. Emissions leakage

Chair Fowlie introduced a working outline for the chapter, which would focus on distinguishing different kinds of leakage that might occur, the mechanisms by which program regulations attempt to mitigate the potential for leakage, and the available evidence about whether leakage is occurring. The chapter would review output-based allocation methods, the existing approaches adopted for mitigating leakage in the current program, and opportunities for reform.

The committee discussed the implications of potentially linking electricity markets and cap-and-trade programs with other jurisdictions, as well as the long-term future of output-based allocation as a leakage mitigation strategy as the overall allowance budget diminishes over time.

A member of the public commented that allowance budgets were set, in part, in relation to offset limits usage and suggested that the committee should consider the history of prior program decisions.

No action was taken.

c. Disadvantaged communities

Sutter introduced a working outline for the chapter, which would review and expand earlier committee chapter work on disadvantaged communities. Topics would include AB 617, a literature review of the impact of cap-and-trade on air quality, and potential changes to the program design, including no-trade zones, facility-level caps, and changes to free allocation.

The committee discussed a process for discussing this area of work with the AB 32 Environmental Justice Advisory Committee and reviewing its final resolution on the cap- and-trade program as part of the committee's work.

The committee discussed exploring a wide range of technical options for market design choices that could address concerns around air quality disparities.

No action was taken.

d. Affordability and cost containment

Chair Fowlie introduced a working outline for the chapter, which would provide context for the role of the cap-and-trade program as a cost containment measure and the relative contribution of carbon pricing to energy price impacts. Chair Fowlie referenced the recent experience with carbon pricing in Canada in the context of upcoming Canadian elections.

Holt emphasized the importance of how revenues are used as part of the broader affordability conversation, including with respect to utility rates and bills.

Kerstein discussed the importance of considering affordability and cost containment in the context of potential re-authorization and California's future climate targets.

The committee discussed how to consider GGRF expenditure categories and data, including the timing considerations associated with appropriation and implementation.

A member of the public commented that the cap-and-trade program's role in cost containment is important and should be considered in relationship to other policies, measures, and GGRF expenditures.

A member of the public commented that the cost-effectiveness of GGRF expenditures isn't the only consideration that is relevant for the GGRF, and that other co-benefits might raise costs while delivering benefits that would not be captured by narrow cost-effectiveness metrics.

No action was taken.

e. Carbon removal

Sutter introduced a working outline for the chapter, which would focus on carbon management more broadly and distinguish point-source carbon capture from carbon removal strategies. The chapter would identify actions that policymakers should consider to advance specific objectives, including implementation of SB 905 and

potential changes to the cap-and-trade regulations to clarify the role of carbon capture and storage. The chapter would discuss considerations for carbon removal, including whether additional direction is needed to develop offset protocols for carbon removal. The committee discussed whether to focus narrowly on potential changes to the cap- and-trade program versus potential developments in other statutes or regulations.

Cullenward raised concerns about mitigation deterrence and asked for clarification about the nature of the technical ambiguity concerning the emissions accounting for point-source capture and storage. The committee discussed whether the presence of uncertainty about the treatment of point-source carbon capture and storage accounting should motivate further clarification.

Fowlie suggested the chapter observe that most proposed carbon capture facilities are located in disadvantaged communities.

No action was taken.

f. Market design

Burtraw introduced a working outline for the chapter, which would address interactions with other climate mitigation policies and key policy design considerations. Burtraw noted that different jurisdictions have introduced different approaches, such as price-based mechanisms in California and quantity-based mechanisms in the European Union. Burtraw noted that while some policy considerations may appropriately be focused on the possibility of high market prices, there is also the possibility of low market prices that could justify the introduction of an emissions containment reserve. Burtraw also introduced several potential issues related to the implementation of allowance price containment reserve based on the experience of other jurisdictions and discussed the potential benefits of rule-based interventions over administrative interventions.

The committee discussed the relevance of focusing on the operation of market design features for higher prices in a post-2030 environment, rather than focusing primarily on the lower price outcomes historically, without prejudicing the merits of design interventions that anticipate lower market price outcomes.

The committee discussed whether to explore technical questions in great detail.

No action was taken.

g. Offsets

Cullenward introduced a working outline for the chapter, which would provide a brief overview of the offsets program and its requirements today; a review of the peer-reviewed literature relating to baselines, additionality, and non-permanence; and an overview of potential directions for reform, including modification of the existing offset protocols, putting offsets “under the cap” such that offset credit issuance leads to reductions in allowance supplies, and replacing conventional carbon offsetting programs with procurement funded by GGRF expenditures.

Burtraw identified issues related to the location of credited outcomes and inventories, as well as how offset eligibility will expand from 4% to 6% from 2026 through 2030 could introduce the potential for creative options. Burtraw also suggested the chapter identify which program design options could provide greater flexibility to prioritize biodiversity as a co-benefit to climate-oriented interventions.

Sutter suggested that the discussion of modifying existing protocols include a recommendation to regularly revise protocols on a predictable schedule.

The committee discussed whether to discuss the transition to carbon removal in the context of offsets, or as a general consideration for long-term policy development, as well as the importance of Tribal considerations across all of the potential reform options.

A member of the public asked for clarifications about the relationship between SB 905 and the cap-and-trade program, and whether the committee might make recommendations about SB 905.

No action was taken.

8. Discussion of proposal regarding an emissions containment reserve

Burtraw discussed how an emissions containment reserve would have raised substantially more GGRF funding than occurred in previous program auctions, and queried whether the committee should discuss an emissions containment reserve in its market design chapter or in another location.

No action was taken.

9. Discussion of Low Carbon Fuel Standard program developments

Cullenward discussed the Low Carbon Fuel Standard regulatory process and planned California Air Resources Board vote on November 8, 2024.

No action was taken.

10. Future meetings

Chair Fowlie announced two upcoming committee meetings:

- a. November 6, 2024 from 12:30pm to 2:30pm**
- b. December 18, 2024 from 12:30pm to 3:00pm**

No action was taken.

11. Public Comment on Items not on the agenda

A member of the public commented on the issue of transportation fuel price impacts of the Low Carbon Fuel Standard and the relationship between credit prices, carbon intensity targets, and cost impacts, as well as the interaction between Low Carbon Fuel Standard and cap-and-trade program prices and their combined effects in transportation fuel markets.

No action was taken.

12. Adjournment

Chair Fowlie adjourned the meeting at 3:05pm.