



Gavin Newsom
Governor

Jared Blumenfeld
Secretary for Environmental Protection

Mary D. Nichols
Chair- California Air Resources Board

April 22, 2019

The Honorable Ben Allen
Chair, Senate Environmental Quality Committee
State Capitol, Room 2205
Sacramento, CA 95814

Dear Senator Allen:

Thank you for your letter of March 1, 2019. We continue to appreciate the shared efforts of the Legislature and the Administration in developing and implementing programs – including the Cap-and-Trade Program – to achieve California’s greenhouse gas (GHG) emission reduction targets and ambitious climate goals.

Your letter raises the important topic of allowance supply in the Cap-and-Trade Program. We take this issue seriously.

GHG emissions in California have declined faster than anticipated. This decline will yield unused allowances at the end of 2020. Using best available data, we compared an estimate of unused allowances with a forecasted demand for allowances post-2020 when the annual caps decline about four percent each year, double the current rate. Our analyses, and those of several independent market analysts, forecast continued and steady increases in allowance prices over time, sending the critical price signal for companies to act to reduce their GHG emissions.¹ As a result of these analyses, California Air Resources Board (CARB) determined that no changes to

¹ https://www.arb.ca.gov/regact/2018/capandtrade18/ct18398.pdf?_ga=2.29006460.1317429163.1554236713-379621357.1528134167

allowance supply or banking rules are required at this time. Though forecasted demand may be uncertain, removing allowance supply today will certainly increase compliance costs and costs to consumers, negatively impacting affordability for Californians.

We agree with you that we must continue to monitor our programs and make program adjustments as needed to ensure the program continues to deliver GHG reductions in a cost-effective manner. CARB held two public workshops and released two public documents regarding the issue of over allocation.

CARB will hold a public workshop this summer to discuss potential methodologies to evaluate cost-effective reductions. We have invited the chairman of the Independent Emissions Market Advisory Committee (IEMAC), Dallas Burtraw, to participate in that workshop.

Per your request, we provided data related to current allowance supply. See Appendix A attached. As a jointly operated, Western Climate Initiative (WCI)-wide market, California and Québec publishes data included in Appendix A to enable market participants and the public to understand the program.² We will continue to engage with the Legislature, Québec, the IEMAC, and other market experts on recommendations related to additional data disclosures.

In taking action to reduce GHG emissions, we are acutely aware of the need to simultaneously address issues of affordability while avoiding over allocations of allowances. Analysis shows that California's portfolio approach to addressing climate change produces the highest likelihood of meeting California's GHG targets. The portfolio approach is also four times less costly than alternatives without Cap-and-Trade, and results in minimal impacts to the economy, jobs, and household income. In short, we are seeking to implement the most effective and affordable approach to reducing California's GHG emissions.^{3,4}

² <https://www.arb.ca.gov/cc/capandtrade/complianceinstrumentreport.xlsx>

³ https://www.arb.ca.gov/cc/scopingplan/scoping_plan_2017.pdf

⁴ https://www.arb.ca.gov/cc/scopingplan/2030sp_appe_econ_final.pdf

Thank you again for your continued leadership and interest in the success of our programs. We appreciate David García's participation in the first IEMAC meeting of 2019 and look forward to legislative engagement with the IEMAC. Should you have further questions, please contact Virgil Welch, Special Counsel to the Chair, CARB, or CalEPA's Deputy Secretary for Legislation, Anna Ferrera.

Sincerely,



Mary D. Nichols
Chair- California Air Resources Board



Jared Blumenfeld
Secretary for Environmental Protection

Attachment

cc: The Honorable William W. Monning
CARB Ex Officio Member
State Capitol, Room 4040
Sacramento, California 95814

Senator Bob Wieckowski
Chair, Senate Budget and Fiscal Review Subcommittee #2
State Capitol, Room 4085
Sacramento, California 95814

The Honorable Laura Friedman
Chair, Assembly Natural Resources Committee
1020 N Street, Room 164
Sacramento, California 95814

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The Honorable Eduardo Garcia
CARB Ex Officio Member
State Capitol, Room 4140
Sacramento, California 95814

The Honorable Cristina Garcia
Chair, Joint Legislative Committee on Climate Change Policies
State Capitol, Room 2013
Sacramento, California 95814

Anna Ferrera
Deputy Secretary for Legislative and External Partnerships
California Environmental Protection Agency

Virgil Welch
Special Counsel to the Chair
California Air Resources Board

WCI-wide holdings in Private Entity Accounts (General, Compliance, LUHA) as of the end of Compliance Period 2 (2015-2017)

Type	Issuing Jurisdiction			Total
	California	Quebec	Ontario	
Allowances Vintage 2013				1,408,541
Allowances Vintage 2014				4,901,858
Allowances Vintage 2015				10,592,014
Allowances Vintage 2016				53,291,321
Allowances Vintage 2017				107,635,826
Non-Vintage Quebec Early Action Allowances		19,221		19,221
Non-Vintage Price Containment Reserve Allowances				38,317
Subtotal, Allowances				177,887,098
Offset Credits	40,538,499	77,534		40,616,033
Total Compliance Instruments				218,503,131

Note: CARB cannot publish the jurisdiction of origin of allowances (outside of non-vintage Quebec Early Action allowances) for legal jurisdictional reasons. The jurisdiction of origin is not necessary to assess the current supply of compliance instruments or to understand the number of vintage 2017 and earlier vintage allowances banked at the end of the second compliance period. This table provides all instruments in private entity accounts as of January 4, 2019. Source: Worksheet (2018 Q4) Columns B-D of the Workbook "Linked California and Québec Cap-and-Trade Programs Carbon Market Compliance Instrument Report - Aggregated by Type and Account" (released Jan 4, 2019) available at <https://arb.ca.gov/cc/capandtrade/complianceinstrumentreport.xlsx>.