

May 9, 2016

Emily Wimberger, Chief Economist
Air Resources Board
1001 I Street
Sacramento, CA 95814

Dear Ms. Wimberger:

Thank you for submitting the standardized regulatory impact assessment (SRIA) and the summary (Form DF-131) for the proposed regulations for the cap and trade program, as required in California Code of Regulations, title 1, section 2002(a)(1). As the proposed regulations were not attached, these comments are based solely on the SRIA.

The SRIA describes proposed regulations that would amend current regulations for the years 2018-2020, extend the current cap and trade regulations to help meet a 2030 target through progressively tighter caps on allowances, and link California's program with Ontario's cap and trade program. The baseline assumes decreasing emissions over this time period from policies already in place. You have advised that there are a number of other regulations being considered under the new climate change scoping plan that could decrease the amount of emission reductions the cap and trade program would need to address. Therefore, the impacts from a range of allowance prices are calculated, from \$15-72 in 2020 to \$25-117 in 2030. Impacts from an intermediate reference case of two times the lower bound of the range are also presented to help demonstrate the impacts in the SRIA. If the other regulations are more stringent and account for larger reductions, the allowance price would be on the lower end. Conversely, with less specific other regulations, the cap and trade program would address more reductions, raising the allowance price.

The main impacts stem from how industries that are required to comply with allowance caps pass on the costs. The SRIA assumes that each \$10 increase in allowance price translates to certain increases in energy prices, such as roughly 10 cents per gallon of gasoline or diesel. Consumers would pay higher prices passed on by industry, and would reduce their purchases from businesses. The total value of allowance caps is estimated to be over \$5 billion a year in the reference case. However, the economic impacts on businesses are offset by a free allocation of allowances, and the impacts on the overall economy are somewhat offset by the additional fiscal spending from annual cap and trade revenues of around \$2 billion.

Finance generally concurs with the methodology used to estimate annual impacts under the proposed regulation. The discussion of alternatives is also helpful, particularly the second alternative on a carbon fee. However, there are a number of areas where the analysis could be expanded when the proposed regulations are released for public comment. First, given that there should be more certainty about the actual proposal, the SRIA could be more specific about what impacts are expected, rather than relying on very large ranges. There may be some ranges needed, as there will be uncertainty, but a smaller range would be helpful for the public in focusing their comments. In addition, future SRIAs for proposed regulations that affect the cap and trade program should discuss how those regulations would affect the impacts discussed here. Second, the SRIA could provide some historical context for how results of the

existing cap and trade program differed from initial expectations, and where uncertainty still remains. The additional information would be helpful in drawing attention to areas where the public could provide additional information on new technology, or weigh in on potential unintended consequences. For example, there is a difference between impacts of adopting a known technology and expected impacts from technology that has not yet been invented. It is unclear where such technology assumptions affect the estimated impacts. Finally, there are some areas where it is difficult to translate results into how individuals or businesses would be affected. For example, tables 10 and 13 are percentage changes, but would be more relatable as dollar amounts. Additional examples of how individuals and businesses could be affected would be helpful.

These comments are intended to provide sufficient guidance outlining revisions to the SRIA. The SRIA, a summary of Finance's comments, and any responses must be included in the rulemaking file that is available for public comment. Finance understands that the proposed regulations may change during the rulemaking process. If any significant changes to the proposed regulations result in economic impacts not discussed in the SRIA, please note that the revised economic impacts must be reflected on the Standard Form 399 for the rulemaking file submittal to the Office of Administrative Law. Please let us know if you have any questions regarding our comments.

Sincerely,



Irena Asmundson
Chief Economist

cc: Ms. Panorea Avdis, Director, Governor's Office of Business and Economic Development
Ms. Debra Cornez, Director, Office of Administrative Law
Mr. Richard Corey, Executive Officer, California Air Resources Board