STATE OF CALIFORNIA — DEPARTMENT OF FINANCE

**MAJOR REGULATIONS STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY**

DF-131 (NEW 11/13)

## STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

| Agency (Department) Name | Contact Person | Mailing Address |
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| California Air Resources Board | Emily Wimberger | 1001 I Street, Sacramento, CA 95814 |
| Email Address | Telephone Number | |
| ewimberg@arb.ca.gov | (916) 327-5932 | |

1. Statement of the need for the proposed major regulation.

Climate change is one of the most serious environmental threats facing the world today. Global warming is already impacting the Western United States, particularly California, in more severe ways than the rest of the country. Significant impacts will likely occur even under moderate scenarios of increasing global greenhouse gas emissions (GHG) and resulting climate change. The goal of the Amended Regulation is to comport with new legislative requirements under Assembly Bill (AB) 398 (Chapter 135, Statutes of 2017), Board Resolution 17-21, and to help support continued and sustained incentives for investment action to reduce greenhouse gases, while streamlining implementation of the Cap-and-Trade Program and providing additional options for lower cost abatement.

2. The categories of individuals and business enterprises who will be impacted by the proposed major regulation and the amount of the economic impact on each such category.

The primary entities affected by the Amended Regulation are businesses that are covered by the Cap-and-Trade Program, which covers about 440 individual facilities across 18 different 2-digit NAICS codes. The sectors that have the largest obligations include wholesale trade, electric power generation, transmission and distribution, petroleum and coal products manufacturing, natural gas distribution, oil and gas extraction, and cement and concrete products manufacturing.

Individuals and entities that are not directly regulated by the Cap-and-Trade Program may face higher prices for fuels, electricity, and other products as businesses with compliance obligations pass through their compliance costs.

3. Description of all costs and all benefits due to the proposed regulatory change (calculated on an annual basis from estimated date of filing with the Secretary of State through 12 months after the estimated date the proposed major regulation will be fully implemented as estimated by the agency).

Costs: The proposed Amended Regulation does not impose direct costs on individuals. The proposed Amended Regulation could increase the cost of compliance by limiting the amount of offsets that can be used for compliance, as required by AB 398. This change could cost covered entities about $30 million per year in years 2021-2025 and $16 million per year from 2026-2030. Setting the new price ceiling higher than the existing Reserve price post-2020 could expose covered entities to higher compliance costs if the allowance market was to tighten significantly and the allowance price were to rise to the price ceiling.

Benefits: The proposed Amended Regulation could increase the amount of assistance that some covered entities receive which reduces their cost of compliance. This amount could be approximately $100 million per year through 2020. The proposed Amended Regulation also implements a price ceiling mechanism as required by AB 398 which may provide some cost certainty to covered entities. In addition, the auction value associated with the auction of state-owned allowances continues to be directed to the Greenhouse Gas Reduction Fund (GGRF) and must be used to further GHG emissions. The Amended Regulation does not change the treatment of GGRF funds, which continue to include funding for high-speed rail, intercity rail, energy efficiency and weatherization, wetlands and forest health, and waste diversion.

4. Description of the 12-month period in which the agency estimates the economic impact of the proposed major regulation will exceed $50 million.

The proposed Amended Regulation was determined to be a major regulation as preliminary modeling for the amendments are estimated to have an impact of greater than $50 million over a 12-month period after full implementation. While there is uncertainty in the future impacts, there are provisions of the Amended Regulation that could result in impacts over $50 million if allowance prices rise above the Reserve price of the current Regulation, which represents the upper bounds on the price per tonne an entity pays for compliance. The Amended Regulation makes changes to the assistance factors used to calculate the amount of free allowances that a covered industrial entity receives. The Amended Regulation also make changes to offset use levels that covered entities can use for compliance. In years 2021-2025, this change could increase the cost of compliance by greater than $30 million per year. In years 2026-2030, this change could increase the cost of compliance by greater than $16 million per year. While direct costs to covered entities exceed $50 million in any one year, many entities would continue to receive benefits through investments funded with GGRF funds.

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5. Description of the agency's baseline:

For the baseline scenario, CARB utilized the Regional Economic Models, Inc. (REMI), specific to California, to model the macroeconomic impact of the proposed amendments to the Cap-and-Trade Program and its cost-containment mechanism. The baseline for the analysis is the cost containment mechanism (current Reserve structure and existing offsets usage limit) already in effect in the existing regulation. REMI Policy Insights Plus (PI+) is utilized to provide year-by-year estimates of the total impacts of the proposed amendment, pursuant to the requirements of SB 617 and the California Department of Finance (DoF). CARB uses the REMI PI+ one-region, 160-sector model that has been customized by the DoF to include California-specific data on population, demographics, and employment.

6. For each alternative that the agency considered (including those provided by the public or another governmental agency), please describe:
   a. All costs and all benefits of the alternative
   b. The reason for rejecting alternative

Alternative 1

a. This alternative sets the price ceiling well above the level of the Reserve price under the current Regulation as well as the range of price ceiling values in the Amended Regulation's Lower and Upper ranges. This alternative was informed by stakeholder comments during public workshops, in particular stakeholders advocating for higher ceiling prices.

b. CARB rejects this alternative because it would result in increased costs and be less cost-effective than the Amended Regulation. While it is very unlikely the price ceiling would need to be accessed, if it were, the costs for compliance would be three times higher than the current Regulation.

Alternative 2

a. This alternative sets the price ceiling well below the level of the Reserve under the current Regulation as well as the range of price ceiling values assessed for the Amended Regulation. This alternative was informed by stakeholder comments during public workshops, in particular stakeholders advocating for lower ceiling prices. Specifically, this alternative sets the 2021 price ceiling at $50 in real 2018 terms, and then escalates to maintain a set real distance between the ceiling and the Auction Reserve Price ($33.18).

b. CARB rejects this alternative because it would the price ceiling may be too low to incent abatement technologies to achieve the GHG reductions necessary to achieve the State's 2030 reduction target. In addition, this price ceiling may be too low to be accepted by other jurisdiction and may jeopardize existing and future linkages.

7. A description of the methods by which the agency sought public input. (Please include documentation of that public outreach).

CARB has requested input from stakeholders and the public regarding the Amended Regulation. In 2017 and 2018, CARB conducted four public workshops (October 2017, March 2018, April 2018, and June 2018), which were webcast and made available by teleconference, on the Amended Regulation. Information regarding these workshops and any associated materials are posted on the CARB website and distributed through several public listservs that include over 1,000 recipients. In addition, CARB staff held numerous informal meetings with stakeholders. The workshops and meetings allowed CARB staff to consider stakeholder feedback and to incorporate it into the Amended Regulation, as appropriate. As CARB continues to consider stakeholder feedback on many of the proposed amendments and no formal decisions have been made, this SRIA analysis represents a snapshot of the Amended Regulation, and the costs and compliance requirements represent the best information available to CARB at the time of SRIA submittal.

8. A description of the economic impact method and approach (including the underlying assumptions the agency used and the rationale and basis for those assumptions).

The Amended Regulation is simulated in REMI by adjusting production costs for covered sectors to reflect the purchase of Cap-and-Trade Program allowances, the distribution of free allowances, as well as the transfer of auction proceeds to sectors that have been identified to receive legislative appropriation of these funds. Based on reported emissions for 2016, the Cap-and-Trade Program covers about 45 different 2 to 4 digit NAICS sectors in the REMI model. To assess the impacts of the change in the cost containment mechanisms, it is assumed that prices rise rapidly from their current position until they meet the proposed price ceilings analyzed in the SRIA. Impacts are measured as the change from the current regulation single-tier price path to the proposed Amended Regulation price ceiling ranges.

| Agency Signature | Date |
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| | 6/21/2018 |

Agency Head (Printed)

Richard W. Corey