

# SB 775 (Wieckowski)

## Cap and Trade

### PROBLEM

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California has the most comprehensive climate change and greenhouse gas reduction program in the world. That program consists of a portfolio of laws to reduce GHGs (e.g. AB 32/SB 32), and expand clean energy, energy efficiency, and zero polluting transportation (e.g. SB 350).

One element of the state program is the Cap and Trade regulation. Cap and trade sets emissions caps on economic sectors, then authorizes the auctioning, sale, and purchase of emission allowances in furtherance of meeting the caps.

Since its establishment in 2012, cap and trade has functioned mostly as an insurance policy for meeting the state's 2020 overall emissions reductions limits. But over the next decade or so, experts tell us pricing carbon may play a much more prominent role in reducing climate pollution and meeting the 2030 emissions limits imposed by SB 32.

There are significant legal issues with both the current cap and trade program, which runs through 2020, and the ability of the state to continue the program after 2020. Most experts believe the best way to ensure cap and trade continues as a tool to reduce GHGs is to enact a 2/3's vote bill that would insulate the program from challenge and give confidence to the longer term carbon market.

There also are concerns about cost impacts on the state's economy and individual households, the need for stable revenue from the program for other state priorities like transit, and for a stable and functioning carbon market.

### THIS BILL

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SB 775 enacts into law a post-2020 cap and trade program. Unlike the current program that was administratively established by state regulators, the new cap and trade program would be more fully fleshed out in statute. SB 775:

1. Establishes a new cap-and-trade program that begins on January 1, 2021. The new program applies to the same set of covered entities that are subject to the current program; ARB would retain its current authority to change coverage in the future.

2. Provides for ARB to set declining annual caps on emissions from covered sources that are consistent with achieving the 2030 statewide emissions goal.
3. Includes a price floor and price ceiling (a price collar) at quarterly auctions. In combination these two program elements reduce market volatility, help to ensure smoother revenue flows, and enable a gradual transition to higher carbon prices.
4. The initial price ceiling begins at \$30/tCO<sub>2e</sub> and rises at \$10/tCO<sub>2e</sub> per year, plus inflation.
5. The initial price floor begins at \$20/tCO<sub>2e</sub> and rises at \$5/tCO<sub>2e</sub> per year, plus inflation, after a one-year delay, such that there is a \$20/tCO<sub>2e</sub> spread between the floor and ceiling after one year of market operation and a \$60/tCO<sub>2e</sub> spread between the floor and the ceiling in 2030.
6. Prohibits the use of carbon offsets, banked allowances from the pre-2020 market, and allowances from external market programs that have not yet linked to the new post-2020 program. These steps separate the trading periods completely.
7. Allows for ARB to link the new program to external market programs.
8. Requires annual (as opposed to 3-year) compliance for all covered entities.
9. Prohibits banking of allowances for use outside of the year they are issued.

### SUPPORT

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Asian Pacific Environmental Network  
California Environmental Justice Alliance (CEJA)  
Californians for a Carbon Tax (CalFACT)  
Center for Climate Protection  
Center on Race, Poverty & the Environment  
Citizens' Climate Lobby  
City of Santa Monica  
Coalition for Clean Air  
Friends of the Earth  
Greenlining Institute  
Physicians for Social Responsibility – SF  
Public Advocates

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SCOPE (Los Angeles)  
Sonoma County Regional Climate Protection  
Authority  
Union of Concerned Scientists  
Western Center for Law & Poverty

Dr. Barbara Haya, UC Berkeley Energy & Climate  
Institute

Dr. Mark Paul, Samuel DuBois Cook Center on  
Social Equity, Duke University

Dr. Anders Fremstad, Department of Economics,  
Colorado State University