



# Designing for Uncertainty: Potential Amendments to California's Cap-and-Trade Market

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*Cap & Trade Reform and Reauthorization*

The Climate Center

February 20, 2025

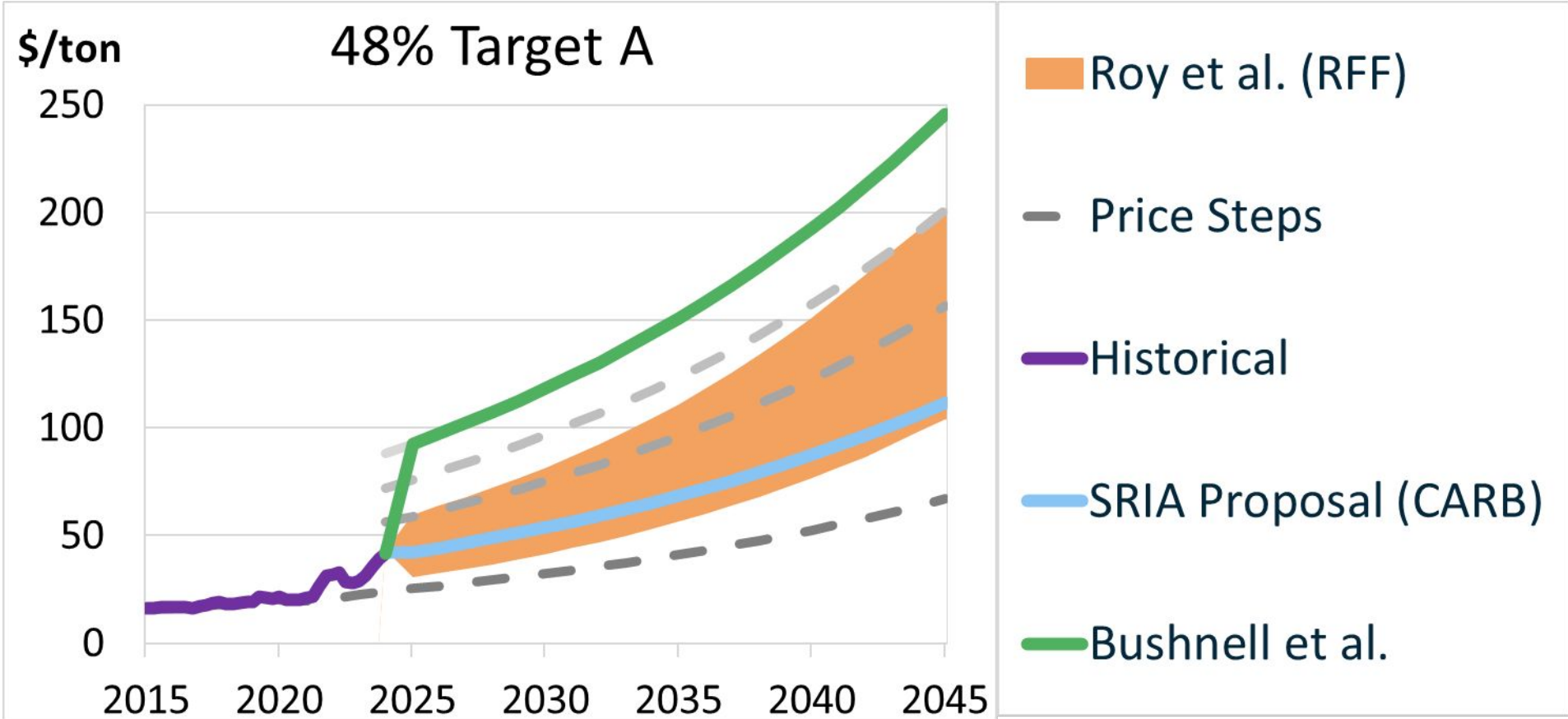


# Uncertainty is a Defining Characteristic of our Climate Challenge

- Regulations have achieved the lion's share of emissions reductions ...but emissions outcomes are inherently uncertain
- Cap-and-trade offers a numerical emissions target, plus revenue and cost effectiveness...and prices inherently respond to uncertainty
- However, the carbon market is not designed to align with regulations



# Allowance Price Ranges in Selected Scenario



# How do Regulations and Carbon Markets Interact?

Regulatory achievements can be undermined by an emissions cap

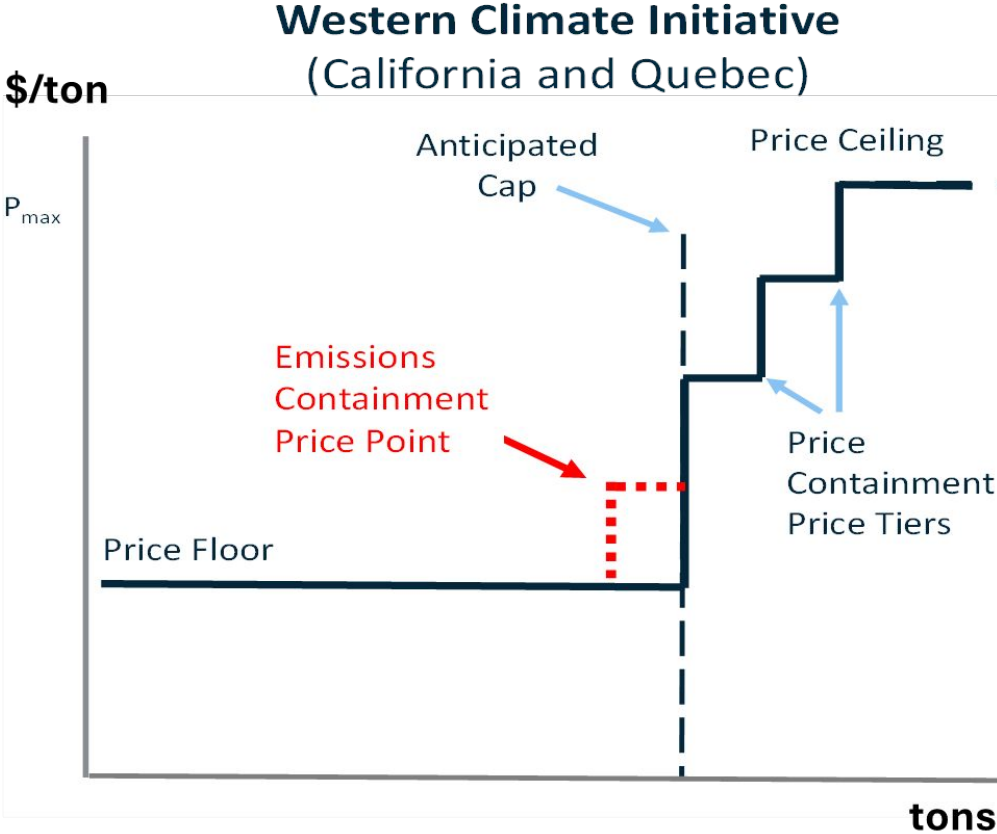
## □ *the waterbed effect!*

- Regulations cause prices to fall and emissions to go up somewhere else!
- So,... the carbon market must accommodate regulations by reducing allowance supply when regulations are effective



“The Waterbed Effect”

# An Allowance Supply that Responds to Prices Would Complement Rather than Lessen the Success of Regulations

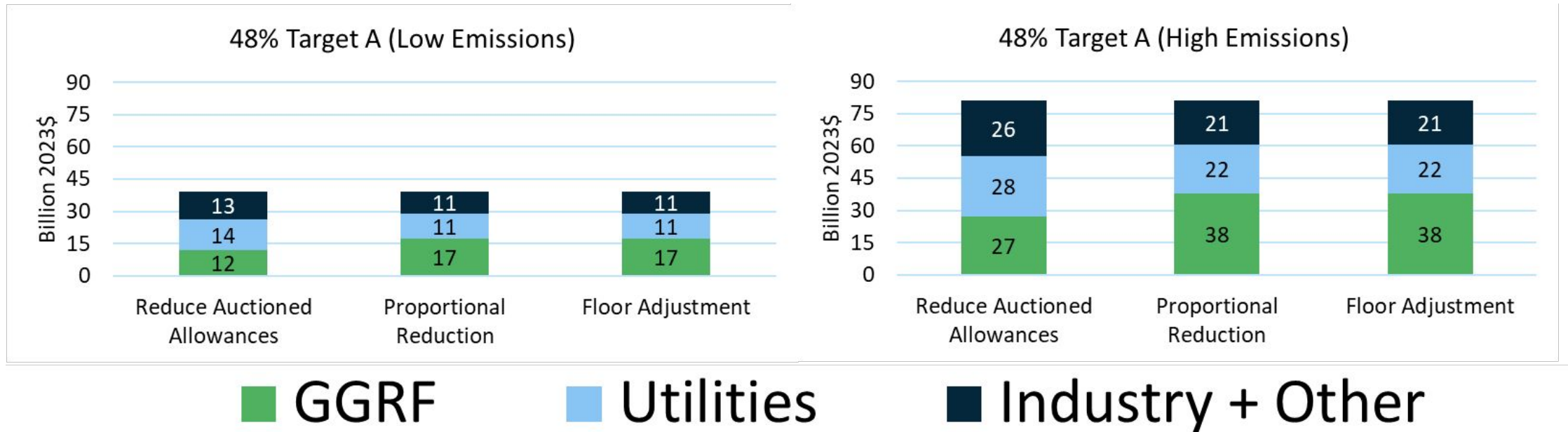




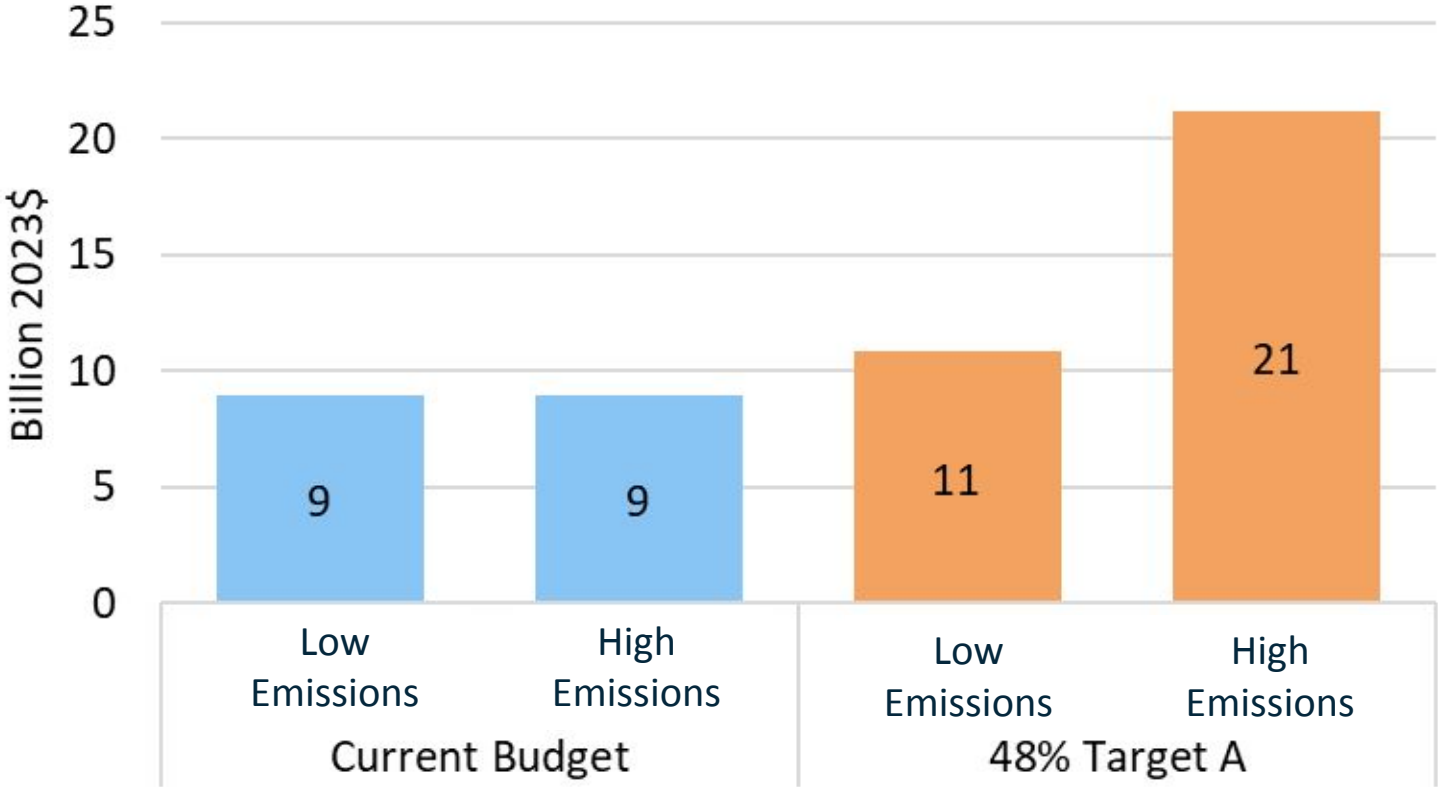
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# Cumulative Allowance Value Across Market Outcomes Under Different Allocation Schemes (2025–2030)



# The Financial Value of Banked Allowances (2025)





# Allowance Value Accruing to Different Interests with Delayed Scoping Plan Allowance Demand

