BIG VISION, BOLD ACTION

The mission of the Climate Protection Campaign is to create a positive future for our children and all life by inspiring action in response to the climate crisis. We advance practical, science-based solutions for significant greenhouse gas reductions.

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November 14, 2008

To: California Air Resources Board (CARB)

Re: Comments on the AB32 Proposed Scoping Plan

On behalf of the Climate Protection Campaign, please accept the following comments on the AB32 Draft Scoping Plan. The Scoping Plan is a balancing act between regulations, a carbon cap, and fees. Each of these strategies has benefits, and we encourage the ARB to continue to move forward in all three directions. ARB does not need to choose between regulations, a cap, and fees. They can implement all three simultaneously.

The State's fiscal situation may require the immediate implementation of carbon fees. We recognize the importance of the regulatory measures in AB32, and that by law they must precede market measures. While market mechanisms are only one section of the Scoping Plan, we devote most of the following comments to this area. The market design has the potential to be either the best or worst part of the state's AB32 implementation. Well-designed market measures can produce the right incentives to reduce GHGs throughout the economy, accomplish reduction goals efficiently, and distribute revenues to assist consumers through the transition. However, if designed improperly, market mechanisms can exacerbate environmental justice problems, delay real reductions, subsidize or enrich the largest emitters, and do more harm than good.

The Climate Protection Campaign's previous comments to the ARB advocated for:

1) **An upstream system**
2) **100% auction of permits**
3) **Compensating consumers with Cap and Dividend**
4) **Carbon fees to fund important programs; include a price floor on allowances**

Building on those comments, we ask the ARB to consider the following points in the Scoping Plan:

- **Auction 100% of permits**

A Cap and Dividend program would auction 100% of permits, and return revenues to consumers as a per capita dividend. This has many benefits, including that it can be designed as revenue-neutral for the government, and would not be seen as a tax. Cap and Dividend also takes significant political pressure off of CARB, because there would be no free allocation of permits (choosing winners and losers) or choosing between competing programs to spend the revenues (also choosing winners and losers). Instead, with the Dividend, all Californians are winners.

We suggest the following changes to the Proposed Scoping Plan (additions in bold; removal indicated by strikethrough):

On **page 34:**

The WCI Partner jurisdictions are also proposing the use of an allowance reserve price for the first 5 percent of the auctioned allowances in the regional cap. **In its consideration of auctioning, the ARB will consider implementing a reserve price for up to 100 percent of allowances.**

On **page 36**:

"ARB agrees that the transition to a 100 percent auction, **with auction revenue going to assist Californians with the costs of transitioning to a low-carbon economy,** is a worthwhile goal ~~for distributing allowances~~. **CARB expects that California will auction significantly more than the WCI minimum levels with a short term goal of 100% auction.** However, a broad set of factors should be considered in evaluating the ~~potential~~ timing of a transition to a full auction..."

Also on **page 36**:

"This process will evaluate various mechanisms ARB is considering for allowance distribution and potential uses of allowance value, including the recommendations offered by the **Market Advisory Committee**, CPUC, ~~and~~ CEC, **the academic literature, lessons learned from other trading systems including the European Emissions Trading Scheme, and the RGGI**. Issues to be considered will include the appropriate timing and structure of a transition to full auction of allowances, **economic impact on consumers and use of auction revenues to reduce regressivity**, the potential need to harmonize the allocation process regionally for certain sectors subject to inter-state competition, and equity across the various sectors here in California."

These changes would make unequivocal the intent to transition to 100 percent auction, and show that ARB will include relevant sources in its discussion of the current debate around auctioning.

- **Auction and Dividend addresses LADWP and SCPPA concerns**

The Los Angeles Department of Water and Power (LADWP) and the Southern California Public Power Authority (SCPPA) have submitted comments to CARB, the PUC, and the Market Advisory Committee opposing auctioning, and asking for a phase in or an exemption from having to buy auctioned permits. We understand their apprehension about anticipated future costs of a carbon market. However, we feel there are ways to implement auctioning that will address their concerns.

First, generators may raise wholesale energy prices under either a giveaway or auction. This is not a threat to LADWP because they can pass along rate increases to their customers as well. One way to make this politically palatable is to return auction revenues to consumers as a per capita cash dividend. The dividend would only exist under an auctioned system. A cash dividend is preferable to a rebate through utilities (showing up only as a line item on electricity bills) because the rebate shields consumers from the price signal and discourages changed behavior, while a high bill coupled with a cash dividend encourages conservation and efficiency, even though the money flow in general is the same.

Second, LADWP has expressed concern that auction funds would flow to Sacramento and not return to their jurisdiction. A per capita cash dividend returns auction revenues to LADWP (and all) customers, facilitating the transition to higher electricity rates. The dividend encourages customers to implement conservation and efficiency measures so that even though they see higher rates, their reduced consumption leads to lower bills. We join LADWP and SCPPA in cautioning ARB against diverting auction revenues for pet projects including filling State budget deficits instead of returning them to consumers.

Finally, the cash dividend is a superior method of compensating consumers rather than providing consumer rebates administered by utilities. A recent study by Dallas Burtraw and others at Resources for the Future explains:

> "Returning allowance value to customers through their local distribution companies would raise electricity prices little or not at all, thereby greatly reducing the burden of climate policy. However, the small price rise also means that consumers receive a weak signal to reduce consumption or invest in improving end-use efficiency. In effect, allocation to consumers is a subsidy to electricity consumption that raises the overall cost of the cap-and-trade program. As a consequence of the fact that consumers do not see higher prices, the amount of reduction necessary elsewhere in the economy goes up."[1]

As mentioned in our previously submitted comments, consumer compensation may provide popular political support for further emission reductions, and if done on a per capita basis, would address disproportionate impacts and environmental justice concerns. It is the best use of auction revenues. More information on consumer compensation may be found at the following websites: www.capanddividend.org, www.carbonshare.org, or www.climateprotectioncampaign.org.

[1] Burtraw, Dallas and Rich Sweeney and Margaret Walls. "The Incidence of U.S. Climate Policy: Where You Stand Depends on Where You Sit," Resources for the Future Discussion Paper RFF DP 08-28, September 2008, Pg. 43.

- **Funding other worthy programs (clean tech, green jobs, etc.) with fees and other revenue sources**

Of course, we also support the many other worthy programs advocated by the environmental and renewable energy community. However, we feel those projects should be funded through fees, feebates, subsidies, and the normal budgetary appropriations process rather than by auction revenues. We feel that consumers must be compensated first, and other programs can be funded, as they have been, through public goods charges and other fees and subsidies.

- **Offsets and Economic Analysis**

Limiting offsets will strengthen the demand for clean energy innovation, which in turn provides more good jobs for Californians. Any offsets allowed should at most represent only a small portion of a polluter's required emission reductions. They should have stringent protocols ensuring that the reductions are geographically limited, quantifiable, additional, and permanent. Offsets from sinks, such as planting trees or avoiding tree cut-downs, are problematic, because what happens if there is a wildfire or a drought?

Finally, the economy is in a recession. The Scoping Plan's economic analysis should include a section on the regressive impacts of potential fuel and electricity price increases, and should be more explicit that rates may go up, but bills could go down through efficiency measures, etc. We suggest including a list of potential policies to assist consumers with short term costs, including returning revenues as a per capita dividend.

Thank you for your consideration.

Sincerely,

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