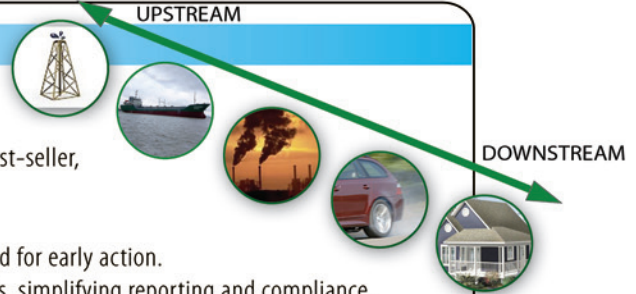


## Recommendations for carbon market design

### 1) Regulate fossil fuels upstream

- Upstream is administratively easier and more comprehensive
- Upstream can include transportation, a vital source of emissions
- For electricity, upstream can avoid the debate between load-based and first-seller, and a future national system will likely be source-based (upstream).
- For transportation fuels, fuels are already tracked at the Terminal Rack.
- The price signal will provide feedback to most businesses, including reward for early action.
- Only fossil fuel producers and importers would be required to hold permits, simplifying reporting and compliance.



### 2) Auction 100% of the permits

- New York, Massachusetts, Vermont, and others are auctioning 100%.
- Revenues from auctioning may be used for public goods investments for further emission reductions, to fund administration and enforcement of the cap, and for per capita rebates or dividends.
- Previous cap and trade systems such as RECLAIM and the ETS have shown the problems with a giveaway. Auctioning avoids windfall profits and preferential treatment, and rewards early action.
- Every business is treated equally, and reduces the likelihood of permit overallocation.
- By contrast, grandfathering only benefits special interests seeking preferential treatment.



### 3) Per capita compensation to Californians

- Equity should be a major priority of a fair cap and trade system. The system must reduce disproportionate impacts on disadvantaged communities. A carbon cap resulting in higher fuel and electricity prices disproportionately impacts low-income households. Per capita 'dividends' or 'shares' rebate consumers, and especially help low-income households.
- A per capita approach is based on the principle that the sky is a commons we all share.

#### A per capita rebate/dividend/share:

- Reimburses consumers for increased prices
- Helps low-income communities and environmental justice concerns
- Avoids complicated or subjective set-asides and still accomplishes the same goal: proportionate impacts as we reduce emissions
- Can easily be adopted by other states or countries (it is scalable)
- Per capita framework may engage developing countries after the Kyoto Protocol expires in 2013.  
Alternate ways to reimburse consumers are: expanding the earned income tax credit, an earmarked rebate, or set-asides for low-income communities.



### 4) A price floor (through a carbon fee)

- The debate between carbon tax versus cap and trade can be resolved by using a carbon fee as a price floor in a cap and auction system.
- The floor reduces low-end permit price volatility, which allows businesses to make longterm investments, and the cap continues to guarantee reduced emissions.

