December 15, 2010

TO: Members of the California Air Resource Board

 **RE: San Diego Regional Chamber of Commerce concerns and suggestions re:**

**Cap- and Trade Regulation**

Below please find our concerns and suggestions regarding the Cap- and Trade Program:

**Research and Development Operations:** The proposed regulation generally **does not adequately address the unique aspects** of many company’s operations, particularly in the Southern California area. Southern California represents **substantial research and development operations**. Predicting research and development activities several years in advance is problematic and impractical;

 **Early Action Credit:** It is unclear how businesses that have already undertaken early and voluntary greenhouse gas emission reduction actions will receive credit;

**Leakage:** The proposed factors to determine **emissions leakage potential** are based on national data and are not necessarily indicative of California or local conditions. Of particular concern is that pharmaceutical and aerospace companies are identified as “low leakage risk”, when in fact these two industry sectors are widely sought after by other states;

**Benchmarking:** Benchmarking approaches as proposed are confusing and may not be appropriate for certain operations or products, (i.e., benchmarking factors such as energy consumption and efficiency as a benchmarking method may not be representative of the fuel actually used in the manufacturing process which may, for example, be provided by boilers.) Benchmarking factors need to be refined to better address unique industry operations. In addition, it is difficult for companies to comment on the regulation when their benchmark has not yet been provided to them;

 **Offsets:** The amount of offsets that are allowed in the program should be higher than 8% and the availability of offsets should be expanded internationally;

**Energy-Intensive Industries:** Energy-intensive industries need to have flexibility to allow incremental reductions in order to prevent leakage;

**Price Floor:** The price floor of $10 per unit is problematic since this is more than five times the standard trading price in the United States. This significantly higher cost is detrimental to California businesses and places them at a serious competitive disadvantage. The pricing should be periodically reviewed and reflect actual market conditions;

**Auctions:** There should be more definition how an auction system would work, and auctions should be delayed until the program is well tested.

 **Trading Network not well-established:** The Western Climate Initiative (WCI) is not yet fully in place as originally proposed to be an integral link for California’s Cap-and-Trade;

**Mandatory reporting threshold should not be reduced to 10,000 tons of CO2e:** This provision of the regulation goes way too far and unnecessarily complicates what is an already overburdened and untested program. CARB should instead focus on those sectors already covered and implement through a phased approach, with adjustments as needed;

 **Consistency with Federal Program:** The state needs to take account in all of their actions and regulations carefully coordination and consistency between California’s program and federal regulation. Businesses should not be asked nor expected to use different protocols and inventory formats for greenhouse gas reporting.

**Gradual Implementation and Flexibility:** Thee cap-and-trade regulation, as proposed, should be scaled back, implemented slowly and be flexible to ensure that California’s businesses do not suffer serious economic or other unintended consequences as a result of this regulation.

For further information, please contact avillagrana@sdchamber.org