

December 10, 2010

To: The California Air Resources Board

Re: Comments on the Proposed Regulation to Implement the California Cap-and-Trade Program

Dear Chair Nichols and Members of the Board,

I want congratulate you and the CARB staff on the hard and diligent work you have done on this complex and critical task. It is clear from the resounding defeat of Prop 23 that the public wants this legislation implemented. You have a historic opportunity to not only do great things for California, but also to create a model for the rest of the country that is effective and fair. CARB staff have done a fine job in many areas, but I feel that to ensure a sustainable and effective system of carbon reduction we need to strengthen the regulations in the following areas:

- **100% auction of permits**
- **Compensation for consumers with a dividend**
- **Carbon fees to fund important programs**
- **Limited and responsible offsets**

Utility Rebates: For the utility sector, CARB has proposed a combination of free allowance giveaways and (secondary) auctions. CARB wants the utilities to pass along the subsidy to consumers in a way that encourages conservation. The Economic and Allocations Advisory Committee (EAAC) report did a great job explaining the flaws in the PUC/CEC recommendation to allocate to utilities. The EAAC recognized that providing a rebate through utilities (showing up only as a line item on electricity bills) shields consumers from the price signal and discourages changed behavior. Separating the return of money from the utility bill is critical for sending any price signal at all to residential customers. There is no environmental benefit from keeping people's utility bills low.

Therefore, I support the proposed regulation's inclusion of consumer rebate as a use of allowance value. I believe the most direct approach to this is a "lump-sum transfer" which could be implemented through a dividend check. The customer would still receive the carbon price signal on their utility bill, but would receive a rebate check to help buffer them from the regressive impact of increased electricity prices.

Dividends: The EAAC was also clear that dividends (or tax cuts) should be a majority use of allowance value, not just another use of allowance value comparable to any other. Dividend checks to every California household do help with the costs that will be passed down to consumers. But they also recognize the shared ownership of the commons, and that the first priority is to return the value of this commons back to the people.

AB 32 requires that the regulations that your board approves “ensure low-income communities are not disproportionately impacted.” For this reason tax cuts do not make sense, because they do not help the people most vulnerable to higher energy prices. Without a dividend or rebate low and middle income citizens will be disproportionately impacted by increased energy prices creating an economic and political obstacle for the smooth implementation of the law.

If dividends are included in the first compliance period, they may be used as a feature to sell the program to the public up front. They will build political support for both energy efficiency and climate protection over time and demonstrate to the rest of the country that this complex issue can be solved in an equitable fashion. Not including dividends will give the impression that CARB is more concerned with the impact of these regulations on businesses than on consumers.

The proposed regulation requires the collected revenues from the auction of transportation sector allowances be used for public purposes. There are many possible uses of auction revenue: government programs and investments, a Community Benefits Fund, and more. I urge CARB to strongly recommend to the governor and legislature to use the funds as the State’s Economic and Allocations Committee recommended: 75% dividends and 25% other uses including a Community Benefits Fund.

Offsets in the Forestry Sector: CARB needs to clarify that the forest protocol does not permit forest offset projects to generate credits for converting a diverse, natural forest to a simplified even-age stand.

Thanks for your work on this for the benefit of the planet and future generations. I will look forward to hearing what you decide.

Sincerely,

Barry Vesser
P.O. Box 638
Occidental, CA 95465