



AB 32 Implementation Group

Working Toward Greenhouse Gas Emission Reductions
And Enhancing California's Competitiveness

July 26, 2011

TO: The Honorable Mary Nichols, Chair
California Air Resources Board

FR: AB 32 Implementation Group

RE: Revised Functional Equivalent Document

Submitted electronically

Thank you for the opportunity to submit comments on the California Air Resources Board's (CARB) revised Functional Equivalent Document (FED) and the recent FED workshop.

The AB 32 Implementation Group is a coalition of business and taxpayer groups working for effective implementation of AB 32. Our goal, has been, and continues to be to serve as a constructive voice in the implementation of AB 32 and ensure that the greenhouse gas emission reductions required by the statute are achieved while maintaining the competitiveness of California businesses and protecting the interests of consumers and workers.

Since the AB 32 Scoping Plan was adopted in 2008, major regulations have been promulgated including cap-and-trade, low carbon fuel standard and a renewable energy standard. Nevertheless, the Scoping Plan was developed as blueprint for action that should be periodically reviewed and updated to incorporate new information and to make appropriate adjustments to fulfill AB 32 targets. Despite CARB's attempts to design regulations to achieve AB 32 goals in a cost-effective manner, it is inescapable that it will cause additional costs to be borne by the California economy and we should continue to look for ways to minimize costs and protect jobs in the state. Therefore, we believe it is appropriate to re-affirm important elements of the Scoping Plan and adopt updates that reflect new information.

As we have conveyed in earlier comments on the Scoping Plan, we believe that a well-designed market mechanism should be included in the measures to achieve AB 32 goals. Market mechanisms such as cap-and-trade can minimize the costs of compliance by providing flexibility for compliance entities and allow for the use of lower cost emission reductions outside the capped sector. We've argued that a successful cap-and-trade program for California should include free allocation of allowances and should link to other states and nations to minimize emissions and economic leakage.

Since the Scoping Plan was adopted in 2008 the landscape for climate policy has significantly changed. The economy has suffered a serious decline and the members of the Western Climate Initiative are not ready to join a cap-and-trade program. As a result, CARB should review all elements of the Scoping Plan to ensure that a California-only program will meet the economic and emission reduction goals of AB 32. Going forward this will require vigilant oversight of the program to measure and prevent economic impacts and industry leakage.

Despite this challenge, at this time we believe that a mix of measures, including market mechanisms, is more beneficial than an option that includes only command-and-control, for a few reasons:

Without a market mechanism such as a cap-and-trade program we would have no ability to link with other states and nations in broader programs. As a global issue, greenhouse gas emissions will not be contained unless there is a unifying policy that treats industry fairly across jurisdictional boundaries. A command-and-control regulation promulgated by CARB can only affect in-state companies.

The FED does not include specifics on the command-and-control regulations that would achieve the same emission reductions as from market mechanisms, and it is speculation how those regulations would impact various industry sectors. But assuming that market mechanisms will not impose excessive burdens (such as extracting revenue through auctioning of allowances in a cap-and-trade program and not returning those revenues as necessary to prevent leakage of emissions) a command-and-control scenario would likely be more burdensome in comparison.

We also believe that the FED should revisit the Scoping Plan treatment of fuels-under-the-cap. The Scoping Plan proposed inclusion of transportation fuels in the cap-and-trade program beginning in 2015, largely due to the expectation that Western Climate Initiative states would address fuels this way in their state programs. Since California is already implementing the Low Carbon Fuel Standard, and no WCI states are prepared to link to California, we recommend that the leakage impacts of a California-only fuels-under-the-cap (on top of the LCFS) be re-examined in the FED.

Thank you for considering our comments. Should you have any questions or need anything further, please feel free to contact Shelly Sullivan at (916) 858-8686.

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