AB 32 Implementation Group

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

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

FR: AB 32 Implementation Group

DATE: April 28, 2014

RE: AB 32 Implementation Group Comments on the California Air Resources Board Scoping Plan Update

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The AB 32 Implementation Group includes industry and taxpayer organizations advocating for policies to reach AB 32 emission reduction goals in a cost-effective manner to protect jobs and the economy.

We have the following comments on the California Air Resources Board's (ARB) 2013 Scoping Plan Update (SPU):

The SPU contains no current economic or leakage analysis to demonstrate compliance with AB 32

A primary purpose of the SPU is to review the interim progress toward meeting the AB 32 goals for 2020. The Legislature intended that such regular updates, every five years, would provide analysis and data to assure important criteria within AB 32 are being satisfied, and to inform any legislative or regulatory policy adjustments that may be necessary to keep the program on track. For example, AB 32 requires the ARB to maximize cost-effective emissions reductions, minimize emissions leakage and ensure technological feasibility in the development of regulations to achieve emission reduction goals by 2020.

The cost and benefit analysis of the current program is nearly non-existent. In fact, the ARB admits that while a new team of economic advisors has been engaged to review the realized costs and benefits of the program so far, their work plan will not be complete until mid-2014. Estimates of emissions leakage related to facility-level regulatory costs and benefits will not be available until 2016. This could be long after impacts of leakage have occurred in California.

Despite the lack of a current economic and leakage analysis, the SPU posits that “the similarity of the external estimates of the 2020 allowance price and the projected allowance price in the 2010 updated economic analysis to the Scoping Plan may offer evidence that the assessment of the projected economic impacts of AB 32 is reasonable and that California can reach the near-term 2020 emissions limit without sacrificing economic stability.” The opposite conclusion is actually more likely. High costs for regulations outside the cap-and-trade program could be causing leakage and hurting the economy, thus reducing demand for allowances and putting downward pressure on prices in the cap-and trade-program.

In any event, the question of whether the ARB has succeeded in achieving maximum cost-effective emission reductions while minimizing leakage has not been answered in the SPU. The ARB has not conducted a marginal cost analysis for each of the regulations to demonstrate that the suite of regulations is maximizing emission reductions as required under AB 32. It is possible that the work plan to be developed by the Economic Advisors will include such analysis, but this remains to be seen. We are disappointed that this analysis has not been completed in a timely manner. As previously stated, this analysis should be the core focus of the SPU.

It is inappropriate for the SPU to contain recommendations for post-2020 emission reductions

Instead of an update on the progress toward 2020, the SPU contains a wide-ranging discussion about environmental, energy, transportation, waste management, and public health matters that directly or indirectly relate to emission reductions for the years post-2020. This discussion is not supported by findings related to the pre-2020 program because necessary research has not been conducted. For that reason, any statements or opinions in the SPU related to the potential costs and benefits of post-2020 emission reductions should not be relied upon and should be deleted.

Legislative approval is required for post-2020 goals below the 1990 emission level

The recommendation to set an interim target for 2030 to reach a 2050 goal of 80% below 1990 levels should be set aside pending a legislative directive to the

ARB to recommend such a reduction goal. At this time, the ARB's authority extends only to maintaining emissions at 1990 levels. The draft SPU fails to note the ARB's lack of authority, leaving it unclear whether the ARB plans to seek additional authority from the Legislature to regulate toward a more stringent post-2020 goal.

The ARB should officially clarify its position regarding its claim as to existing authority to address post-2020 issues in the current update. It is in the best interest of the program to avoid litigation and the market disruption and uncertainty that this would cause.

The SPU is not the appropriate process to develop recommendations for post-2020 climate policies. Instead, at minimum, there should be a legislative directive to develop an analysis of post-2020 climate policies that includes:

- **A requirement that any emission reduction goal be set at a level to give California credit for the energy efficiency and emission reductions already accomplished in the past decades.** The SPU recommendations on a 2030 goal alludes to aspirational worldwide reduction goals to keep temperature changes below 2 degrees higher, but we are starting from a different place compared to other states and countries and this should be reflected in the evaluation of future reduction targets. The SPU fails to recognize the existing and improving efficiency of California's economy, real and significant costs to consumers, and California's limited contribution to global greenhouse gas emissions. Adopting an aspirational worldwide percentage reduction for California, without adjustment, will impose a significant cost burden on Californians.

- **A requirement that emission targets sync with similarly stringent commitments by other states and countries.** California will not enjoy a solution to climate change without other states and countries undertaking GHG reduction strategies. California leadership can encourage others to join the fight but "leadership" does not require that we excessively burden our own economy, threaten jobs and lower our quality of life. Targets and goals that may be considered should include triggers or other mechanisms to adjust in response to other jurisdictions' climate change strategies.

- **A requirement that post-2020 targets be evaluated to ensure they are achievable in a cost-effective manner.** A robust analysis of the marginal costs and technological feasibility of complying with any proposed post-2020 targets will provide important insights into the appropriate target levels, the best timing for achieving reductions, and what other incentive policies should be embraced to offset higher than acceptable costs.

- **A requirement that robust and regular oversight and informational hearings accompany the post-2020 climate policies.** This will ensure that ARB board members are addressing the key policy issues important to both Legislators and stakeholders, as well as holding to the requirements of AB 32, resulting in a much better work product that will provide the necessary guidance for further state policy development.

In closing, the approach we recommend for planning post-2020 climate policies will minimize costs and help maintain and grow manufacturing and other businesses in the state. This will lower overall global emissions by taking market share from dirtier energy locations and keep our economy strong. A strong economy will make it easier to afford the investments in new and transformative technologies we need to make progress on climate change.

Should you have any questions regarding our comments and suggestions, please feel free to contact Shelly Sullivan at (916) 858-8686.