



Our mission

To inspire, align, and mobilize action in response to the climate crisis. We work with business, government, youth and the broader community to advance practical, science-based solutions for significant greenhouse gas emission reductions.

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May 17, 2010

To: The California Air Resources Board

Re: Cap and Trade Workshop

Dear ARB,

I have followed the learning curve and the discussion of cap and trade in California for several years now. I have been impressed with the public processes of the Market Advisory Committee, and more recently with the EAAC. The discourse is much more advanced now than it was in 2006. After several years of studying this subject, I know staff is now well-versed in the concepts of free allocation and auctioning, and use of allowance value. ARB has had time to learn the lessons from the EU ETS, and to hear from dozens of experts. Unfortunately, ARB has also heard from dozens of lobbyists who want free allocations. That is partly why I am so disappointed in ARB's recent emphasis on compensating industry with free allowances, and the delayed move to auctioning, presumably for political reasons.

For the past several years, the Climate Protection Campaign has consistently submitted comments to ARB calling for:

- **An upstream system**
- **100% auction of permits**
- **Compensating consumers with Cap and Dividend**
- **Carbon fees to fund important programs and a price floor on allowances**

The EAAC achieved an impressive level of consensus on these items, but the ARB now seems to be watering it down. The EAAC has spoken, and now the ARB should implement their recommendations.

The 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.

Regarding free allocation, do we need to relearn the lessons of the European ETS? Because of their choice of administrative (free) allocation instead of auctioning, the ETS is going to have to figure out the change to the baseline to the aviation industry due to the volcano in Iceland. ARB would have to recalculate free allocations to industry after every perturbation in the fuel and electricity markets. A hurricane or an oil spill in the Gulf of Mexico could change the price of oil, and then companies would claim they need more free allowances. ARB would face pressure to recalculate their allocations. Is that sort of thing really the best use of ARB's time? ARB staff, why subject yourself to all that lobbying and political manipulation that free allocation entails? Wouldn't it be much easier to just let companies figure out for themselves how many permits they need and let them buy them for themselves at auction?

I am glad the ARB included consumer refunds as a use of allowance value. The EAAC was clear that this should be a majority use of allowance value, and that it should not be provided through utilities. Also, if consumer dividends are postponed until the 2nd compliance period, while utilities are getting free handouts, ARB runs the risk of a political backlash (already underway), and the program may not last until the 2nd compliance period. Better to include dividends as a feature to sell the program to the public up front. ARB seems to want to use a lot of allowances to reduce adverse impacts of industry stakeholders. But why is industry 1st tier, while consumers are 2nd tier? Why are corporations senior to people? Corporations and lobbyists are distorting our democracy, and ARB, as an independent agency, can stand up to them, following the EAAC recommendations, and show that a carbon cap can put consumers first, with Cap & Dividend.

Sincerely,

Mike Sandler
Program Manager