



To: CARB Staff
From: Kristin Grenfell, Audrey Chang, Diane Bailey, NRDC
(kgrenfell@nrdc.org)
Re: Comments on Program Design in Draft Scoping Plan
and Appendices
Date: August 6, 2008
Via: Electronic submission at
<http://www.arb.ca.gov/cc/scopingplan/spcomment.htm>

I. Overview

As the Draft Scoping Plan indicates, there is no single silver bullet policy tool to achieve AB 32's goals. California needs a comprehensive program that takes advantage of the strengths of many different types of policies, including direct regulations, performance standards, incentives, markets, and fees. Designing the overall AB 32 program requires California to select the best package of policies to meet the multiple objectives of AB 32; this selection should be based on an analysis of the strengths and weaknesses of each policy tool. We urge CARB to discuss in the Proposed Scoping Plan the benefits of each type of policy tool, and how they can work together most effectively in order to meet the state's multiple public policy objectives. Below we briefly describe the strengths of the primary categories of policy tools.

II. Strengths of Different Policy Tools

A. Benefits of direct regulations and performance standards

California has a long history of success with direct regulations and performance standards, such as the California Energy Commission's energy efficiency standards. These policy tools are a proven, well-understood way to reduce pollution emissions and can provide the essential foundation of emission reductions that other policy mechanisms can build upon. Direct regulations and performance standards can reduce pollution emissions below business-as-usual levels, and they are effective tools to spur technological innovation. In addition, direct regulations and performance standards can overcome non-price market barriers, which California agencies have long understood prevent cost-effective efficiency improvements and other investments.¹

Moreover, these policy tools can provide targeted co-benefits (such as air quality improvements and protection from natural gas price volatility). In the context of AB 32,

¹ These market barriers include limited product availability, split incentives between construction and operational budgets, lack of information, and many other barriers that have been well documented. The price signal from a fee or cap and trade program will not overcome these many market barriers, since cost-effective investments remain untapped even at today's prices.

direct regulations can ensure an appropriate level of GHG and co-pollutant reductions, particularly in communities that are already disproportionately impacted by air pollution. Section 38570 of AB 32 directs CARB to maximize additional environmental and economic benefits. Direct regulations and performance standards (such as energy efficiency standards, and measures to reduce GHGs from refineries, cement kilns and other industrial facilities situated in communities that are already adversely impacted by air pollution) would provide significant co-pollutant benefits in the communities that need it most, as well as providing economic benefits.

B. Benefits of a cap and trade program

The primary benefit of a cap and trade programs is that it provides certainty that emissions will not exceed a certain level. We appreciate the mention in the appendix of the benefit a setting a cap (p.C-11), but believe this benefit should be explained more prominently in the Proposed Scoping Plan. A cap and trade program with an enforceable cap and strong penalties can ensure that emissions are reduced down to the pre-determined cap level. This gives the state a mechanism to push emissions even further below what can be achieved through other regulations alone. A cap would require entities in capped sectors to reduce emissions even further than required by other regulations. A cap-and-trade program also incentivizes entities to go beyond other regulatory requirements and achieve even further emission reductions because, unlike other direct regulatory programs which direct entities to take specific actions, a cap-and-trade program motivates entities to be creative and find ways to achieve further reductions because they can avoid purchasing allowances or sell excess allowances. This incentive for entities to exceed the requirements of other regulations can also drive innovation in the capped sectors as capped entities try to reduce emissions even further.

A cap and trade program also creates a price signal, which can incent GHG-reducing changes throughout the economy, and enables businesses to factor their emissions into everyday business decision-making. If allowances are auctioned, a cap and trade program can act very similarly to a carbon fee by making the polluter pay for emissions. In addition, a cap and trade program allows the regulators to focus on the environmental objective – meeting AB 32’s emissions limit – and puts the burden of finding adequate emission reductions on the emitters.

1. Specific recommendations for cap and trade design in the Scoping Plan

In order for a cap and trade program to be an effective part of the AB 32 package of policies, it must be well-designed. We have already submitted our specific suggestions for the design of a cap and trade program jointly with other environmental and public health groups in joint Comments on Program Design submitted on August 5

by Jason Barbose on behalf of a coalition of environmental groups.² Those comments are summarized here:

- Any cap-and-trade program must meet the objectives of AB 32.
- A tight cap should be set over as many sectors as practicable.
- Allowances should be auctioned.
- Auction revenues should be used in the public interest.
- *If* they are allowed, offsets should be limited.
- Program should provide benefits to communities that suffer greatest cumulative impacts of air pollution.
- Strict standards should be met before California links with WCI.
- Reporting must be transparent.
- Penalties must be meaningful.
- Multi-year compliance periods and banking, but not safety valves, should be used to contain costs.

C. Benefits of Incentives and Fees

Fee and incentive programs, such as energy efficiency programs and the California Solar Initiative, have also been used successfully in California for many years. These policy tools can reduce pollution emissions below business-as-usual levels and help spur technological innovation. They can also be used to engage California consumers in the state's efforts to reduce greenhouse gas emissions. As the Draft Plan correctly points out, we need to engage all Californians in order to achieve the state's ambitious goals. (pp.65-67) Incentive programs can also overcome non-price market barriers (discussed above) by focusing consumer attention, and can provide flexibility in sectors where emission reduction opportunities are diverse. Fees can provide a source of revenue to fund incentive programs, and can also encourage behavioral change at the individual and business level by putting a price on carbon.

2. Specific recommendations for carbon fees in the Scoping Plan

We support CARB's plan to enact a carbon fee to pay for the administrative costs of implementing AB 32. (p.41) We urge CARB to enact and begin collecting this fee as soon as possible.

We also support additional carbon fees as part of the package of policies in the Final Scoping Plan. (p.41) These should include the existing public goods charge on utility bills that funds incentive programs for energy efficiency, RD&D, and other programs, along with new public goods charges on water and forest products to provide incentives for measures to reduce emissions in these sectors.

² www.arb.ca.gov/lists/sp-design-ws/97-scoping_plan_cap_and_trade_design_comments.pdf