

How Could Money (i.e. allowance value) From ACES Help California Business?

- 1) Allowances for Energy Intensive and Trade Exposed Industries to improve California's competitiveness.

While it is important for California and the federal government to act in addressing climate change – even in the absence of a global consensus – it should be acknowledged that neither California nor the United States can solve climate change alone. In the absence of critical mass of global action, certain industries and businesses will compete internationally against companies that do not yet pay for their “carbon footprint”. California must seek to enact or support policy that protects its businesses from competitive disadvantage. Failure to do so would potentially result in emissions leakage and loss of jobs from the state. Some have discussed carbon-related trade tariffs as a means to address competitiveness issues. However, these tariffs could result in challenges under the commerce clause or NATFA. Calls for similar carbon tariffs at the federal level have been met with resistance by President Obama and by key policy makers. We believe that a better way to address competitiveness is through the allocation process. California should insist on a method of allowance allocation that considers the effect of energy intensiveness and trade exposure – in a way divorced from politics. Such allocation such continue until the trade exposure is diminished.

- 2) Assistance to industry to ease the transition to a low carbon economy

Aside from incentivizing advanced technologies, additional sources of funding from ACES could assist businesses (both large and small) in the fundamental steps necessary for a transition to a low carbon economy. For instance, the UK Carbon Trust used a portion of the “Carbon Levy” paid by businesses to help them with the capital costs of making transitions to lower their carbon footprint. Companies can depreciate 100% of capital costs in the first year when they transition to efficient low and zero carbon equipment, offsetting part of incremental up-front costs. Small businesses can access zero interest loans to help pay back capital costs from improved cash flow. Allowances paid for by California businesses could be similarly used in part to help a broad range of California businesses transition to most efficient “best in class” operations.

- 3) Incentives for advanced technologies that are technology and fuel neutral

California has a long history of innovation in technology that should be repeated in leading innovation in low carbon technologies. California can influence this outcome by advocating for federal policy that allows California to enable this priority.

Examples of categories of innovation include Carbon Capture and Storage (CCS) and low carbon fuels. Given California's need for power, GHG emission reductions, and geology that is uniquely accommodating for CCS, development and

implementation of this vital technology should really be a signature issue for the state. California should advocate for the development of incentives that draw companies to the state to undertake these projects – and that considers innovations in enabling technology and regulations. For example, ACES section 782(f) contains incentives for emission controls through 2050, but they are restricted to carbon capture and storage and exclude natural gas, the primary fuel used to generate electricity in California, and in biofuel plants. While CCS is likely to be more cost-effective for coal plants initially than for natural gas plants, California also has potential advantages from its extensive oil& gas development experience. If CCS follows the cost-curve of other emission control technologies, it will drop significantly in price if deployed at large scale and could become economical for other fuels. Avoiding this restriction will remove an unnecessary barrier to the future possible use in California of CCS and/or other innovative technologies invented between now and 2050 for a variety of fuels.

Given California's emissions profile which reflects our reliance on the automobile, another category of desirable technology to incentivize is lower carbon fuels and transportation options.

All these incentives should be focused on making California a desirable place to site the projects. Incentives should also provide advantage to early movers, be transitional, and technology neutral (ie not pick winners).

4) Flexibility for states in use of allowances to help address state climate requirements

The Scoping Plan contains a mix of measures to help the state achieve its goal of 1990 GHG emission levels by 2020. Based on the W-M language which passed the house, the measures that account for some 80% of the state's needed reductions will survive a federal moratorium on state cap and trade programs. Also expected to survive the federal moratorium is AB32's requirement to address environmental justice and co-benefit issues.

AB32's requirement to implement a cost effective approach to addressing climate change – while at the same time addressing co-benefits and EJ issues has created much angst among members of the business community. The primary concern has been that there has not been a clear acknowledgement of the supremacy of the objective of cost effectively addressing GHG emissions and that trying to address what is perceived by many as conflicting objectives will result in a regulation that is neither cost effective nor efficient at addressing any of the objectives. Business is further concerned about the competitiveness issues that arise when California industry will be subjected to what is essentially a “carbon plus” price while industry in other states will simply be subjected to a carbon price. A “carbon plus” price results from policy that requires and justifies more expensive measures in order to capture non-GHG related benefits. Industry has expressed concern that instead of focusing

separately on the requirements to achieve both GHG reductions and EJ/co-benefit issues, California is choosing a path which encumbers and undermines the trading program and the overall benefits that could come from a cost effective, market-based program. At the same time, industry acknowledges the statutory requirement to address all these goals.

Rather than encumbering the entire GHG reduction system in order to obtain uncertain and uneven co-benefits – or to address environmental justice concerns, it may be possible to more effectively focus on and address these issues separately. If California were to have flexibility in how to use some portion of the value of allowances from a federal cap and trade system, they could use these allowances to more effectively address the requirements of AB32. For instance, studies have shown that with many sources of emissions – there is little correlation between GHG reductions and co-benefits in terms of co-pollutants. If a pool of funds were available from the value of allowances, a funding mechanism could be provided to allow individual air districts to consider, evaluate and incentivize projects which have been demonstrated (rather than assumed) to provide GHG reductions that also bring significant co-benefits or that address identified EJ concerns. At the same time, the state would be able to forego market distorting design elements that have been predominantly directly at addressing non-GHG issues – such as direct measures on sources under a cap and trade system (where no market failures have been demonstrated), limits on the use of offsets, the consideration of possible restrictions on trading (though these last 2 elements would be moot under a federal cap and trade program that pre-empted state cap and trade programs), and other design elements where addressing co-benefits and environmental justice concerns are a prime objective.