Results of Oct 3 ETAAC subcommittee meeting on response to Market Advisory Committee Report (Preliminary and subject to change)

	Early Action	Innovation	Clear Price Signal
Need for Other Policies	General consensus is that cap and trade is not enough, especially with regard to innovation. We need complementary measures and regulations		
Scope of Cap	scope may have no effect, but to the extent that it encourages broad action, it can encourage broad early action	general agreement that a broad scope is good for innovation	broad scope improves clarity of price signals
Point of Regulation	Discussion in process. f CARB chooses to pursue a first-seller model, Then certain steps become important to ensure that innovation signals can be effectively acted upon. Ie the creation of a Carbon Trust or some other entity may be necessary, to aggregate the potentially diffuse economic power of first-sellers into a funding stream that is robust enough for the task of technology transformation.		
Allocation method	Most members (but not all) agree that grandfathering is bad for all three criteria and that some auctioning will be needed.		
Grandfathering	general consensus that grandfathering hurts early action. Some disagreement.	general consensus that grandfathering provides weak innovation incentives, if any. Some disagreement	general agreement that free allocations do little to provide clear price signals
Free Allocation	general consensus is that output/performance-based allocations are preferable to grandfathering	general consensus is that output/performance-based allocations are preferable to grandfathering	general agreement that some auctioning is necessary for establishing a price signal
Auction (partial or full)	general agreement that a partial auction would encourage early action	many members thought an auction would encourage innovation (agreement?)	general agreement that auctions are preferable for creating price signals
If auction, how to use revenues	(1) auction revenues are legally a fee and should be used for purposes of GHG reductions (2) need to make it harder for these funds to be used for general fund; (3) it is important to put the money to good use quickly to avoid "fiscal drag"; (4) so long as fee starts generating benefits, jobs, it is at least indirectly compensating people for increased prices – direct refund to taxpayers is probably not the way to go, (5) existing mechanisms exist for electricty/gas to help low income people and does not require money from fees. General agreement on uses: (a) investments and deployment of reductions of GHG emissions, (b) RD&D through state universities, (c) focus where there are market barriers/imperfections that private capital is not addressing i.e. first production facilities, (d) economic opportunities and GHG reductions for low-income and disadvantaged communities with consideration for co-benefits in addition to GHG reductions.		
Offsets	Further discussion is needed on effect of offsets. Most members thought that some limits might force more innovation. All agree that some offsets will be necessary. General agreement that offsets can help target sectors outside the cap, but take pressure of those inside the cap (could be a good thing or a bad thing depending on your perspective). Limits may make more sense in some sectors than in others.		
Unlimited	Discussion in process	most members agreed that placing limits on offsets would provide increased incentives for innovation (there was no agreement as to whether or not this is a good idea)	offsets lower prices
Allowed with quantity limits	Discussion in process	general agreement that some limits would drive more innovation, but at what cost?	offsets lower prices
Allowed with geographic limits	Discussion in process	general agreement that geographic limits would increase innovation and generate cobenefits in California, but is this important to our task. Need to make sure than mechanism is legal (commerce clause).	offsets lower prices
Banking	general consensus that banking is a good thing and that it is necessary for early action		
Not Allowed	agreement that not allowing any banking would hurt early action	agreement that ruling out banking could hurt innovation (?)	is one way to address price fluctuations and stabilize the market. Without banking, some other mechanism might be needed to combat price volatility.
Allowed within X years	agreement that banking is necessary for early action. Limits might hurt.	no agreement – could encourage innovation, but large banks could discourage, so limits might be helpful	banking is one way to address price fluctuations and stabilize the market. These benefits are reduced when time limits are placed on banking, however.
Allowed without restriction	agreement that allowance banking encourages early and increased compliance	no agreement on the effect of banking on innovation specifically. Banking can increase innovation incentives, but large banks can decrease the pressure to innovate	banking is one way to address price fluctuations and stabilize the market. From the standpoint of price stability for the entity holding the banked allocations, unlimited banking is best

Borrowing	general agreement that borrowing does NOT encourage early action or innovation. Some members thought limited borrowing could be helpful for smoothing price signals. Others suggested that this could be accomplished through a longer compliance period. Borrowing could be limited based on carbon price or offsets/trading could be used in cases where compliance would not otherwise be met.		
Not Allowed	agreement that borrowing discourages early action, so not allowing it would remove a disincentive for early action	no agreement – some see it as likely to delay and discourage, others see it as necessary for longer term investments - depending on length of compliance period	general agreement that borrowing helps smooth out prices, but that this can be accomplished through other means (3 year compliance period, banking, etc)
Allowed with restrictions, limits, discounts	restrictions would reduce problems, but the ability to borrow still encourages delayed compliance	no agreement. Those opposed to borrowing see limits as helpful, but might prefer to see no borrowing at all.	general agreement that borrowing helps smooth out prices, but this can be accomplished through other means (3 year compliance period, banking, etc)
Allowed without restriction	unrestricted borrowing would severely delay compliance	unrestricted borrowing would delay and discourage innovation	helps smooth out prices, but this can be accomplished through other means (3 year compliance period, banking, etc)
Cost Containment	Some agreement on the need for some sort of cost containment mechanism. State funded entity could sell/buy credits to maintain market liquidity – something other than specific price limits. General agreement that cost containment mechanism needs to be quick-acting. Borrowing could be conditional on carbon price.		
"Market Maker"	depends on the details. Carbon Trust would encourage early action	depends on the details. Carbon Trust could encourage innovation if the categories and criteria were properly structured.	a “market maker” that could monitor trends and act like the Fed would be good for price signals and offers a good alternative to traditional, rigid mechanisms such as price floors and ceilings.
Safety Valve	A safety valve of any sort would reduce the incentives for early action because it eliminates one reason to take early action: the potential for unusually high prices in the future.	general agreement that a safety valve would be bad for innovation (?)	would help create some certainty about how high the price could go, but not a “clear signal.”