

## **Attachment 1: Description of Emission Reduction Measure Form**

Please fill out one form for each emission reduction measure. See instructions in Attachment 2.

**Title: Cap and Auction**

**Type of Measure (check all that apply):**

- |   |   |
|---|---|
| <input type="checkbox"/> Direct Regulation  | <input checked="" type="checkbox"/> Market-Based Compliance |
| <input type="checkbox"/> Monetary Incentive | <input type="checkbox"/> Non-Monetary Incentive             |
| <input type="checkbox"/> Voluntary          | <input type="checkbox"/> Alternative Compliance Mechanism   |
| <input type="checkbox"/> Other Describe:    |   |

**Responsible Agency: ARB**

**Sector:**

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Transportation | <input checked="" type="checkbox"/> Electricity Generation |
| <input type="checkbox"/> Other Industrial          | <input checked="" type="checkbox"/> Refineries             |
| <input type="checkbox"/> Agriculture               | <input type="checkbox"/> Cement                            |
| <input type="checkbox"/> Sequestration             | <input type="checkbox"/> Other Describe:                   |

**2020 Baseline Emissions Assumed (MMT CO<sub>2</sub>E):**

**Percent Reduction in 2020: 25% or level of cap**

**Cost-Effectiveness (\$/metric ton CO<sub>2</sub>E) in 2020:**

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**Description:** Cap and Auction is a market approach to stopping global warming where total greenhouse gas emissions are capped, and emission permits are auctioned (sold) to regulated companies. Cap and Auction has many benefits over other cap and trade designs that favor the fossil fuel industry. Three elements of Cap and Auction are: 1) An upstream, comprehensive system, 2) 100% auction of permits, and 3) Compensating consumers on a per capita basis. This recommendation builds on options discussed in the AB32 Market Advisory Report.

The most comprehensive and easiest to administer point of regulation would be upstream. An upstream system would require only upstream companies to hold permits. They would be the buyers at the permit auction. An upstream system is the most comprehensive, and requires the least amount of administration from CARB. CARB estimated that there are only 150 upstream companies (and the original estimate was 50), versus over 450 downstream facilities. Although some people believe a system must focus on facilities, an upstream system would also encompass

transportation fuels. The point of regulation for transportation fuels could be at the Terminal Rack.

The method of allocation of permits is very important. Instead of a giveaway, the State would auction allowances to regulated companies. An auction has many benefits, including providing an incentive for early emission reduction by regulated companies, avoiding the windfall profits problem of the giveaway, providing a revenue stream which could be used for additional emission reductions or to compensate consumers, and more. An auction captures the value for the public and avoids lobbying for preferential treatment.

The revenues from the permit auction would be used for 1) public goods and 2) compensating consumers. Examples of public goods are: energy efficiency, public transit and R&D for clean technologies. A portion of auction revenues could be set aside for per capita consumer compensation, giving consumers a choice of cash dividend, tax rebate, or a share that could be sold to companies via banks and brokerages. Since fuel and electricity prices may increase under a GHG cap, consumers must be protected. Compensation may provide popular political support for further emission reductions, and if done on a per capita basis, would address disproportionate impacts and environmental justice concerns.

Consumer compensation is a specific way to address environmental justice concerns, if it is done on a per capita basis. The reasons for consumer compensation are: it is based on the equitable ownership of the commons; it protects citizens from higher energy prices; it sustains consumer purchasing power, without which all California businesses and households will suffer; and most importantly, it will create and help maintain political support for a carbon cap over time. The per capita aspect addresses disproportionate impacts to low-income households (who typically use less fossil fuel), and provides a net gain to lower-emission households in comparison with high-emission households who spend more on fuel than they receive in compensation.

Four methods of consumer compensation are: 1) using revenues from an auction of allowances for a cash dividend to consumers (the Sky Trust model similar to the Alaska Permanent Fund), 2) a tax break (such as the Earned Income Tax Credit), 3) an earmarked credit (such as a coupon for Energy Star appliances, transit passes, or hybrid cars), or 4) distributing a share to consumers representing the emissions (which could be sold to regulated companies in a private market). Each of those options has benefits. We encourage CARB to commission a study on these options. They are not mutually exclusive, and may be used in various combinations, but additional study is needed.

Additional design elements of a Cap and Auction system include: 1) a price floor but NOT a price ceiling; and 2) a limited role of offsets but NOT unlimited, unregulated, out-of-state offsets. Thank you for your consideration.

**Emission Reduction Calculations and Assumptions:** A price floor through a Carbon Permit Fee will help reduce price volatility and reassure companies that long term investments in low-carbon technologies will be economical.

**Cost-Effectiveness Calculation and Assumptions:**

**Implementation Barriers and Ways to Overcome Them:** 1) Political Will to make companies pay for the permits. The AB 32 Market Advisory Committee report recommended auctioning permits in the long term. They were divided about auctioning 100% right now. California must show political leadership. If more people knew that they could receive a dividend or share from the proceeds, there would be increased desire to auction or distribute shares to consumers.

2) The precise architecture of the auctioning mechanism. Sources for ideas about this could come from experts in the energy auction market field, or from the RGGI states, or the UK's Carbon Reduction Commitment program.

**Potential Impact on Criteria and Toxic Pollutants:**

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