

Attachment 1: Description of Emission Reduction Measure Form

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

Title: Carbon Permit Fee

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 CO₂E):

Percent Reduction in 2020:

Cost-Effectiveness (\$/metric ton CO₂E) in 2020:

Description: CARB should include a Carbon Fee on tons of carbon emissions on upstream or midstream fossil fuel and electricity companies. The fee would complement a cap and auction system. The authority for a carbon permit fee for “the purposes of the division”, which is to control global warming, is contained in section 38597 of AB 32. A Fee will help fund AB32 implementation and help CARB increase staffing to fulfill its increasing responsibilities. The fee will also help CARB understand aspects of creating a price for carbon in California in advance of a cap and auction/ Carbon Share system (see other submittals by Mike Sandler of the Climate Protection Campaign to ARB and the AB32 Market Advisory Committee for more information). The fee will prevent AB32 from continuing to be an unfunded mandate.

The simple announcement of a carbon fee will lower carbon emissions through millions of discrete actions, taken by millions of individuals and businesses, all of which will be motivated by avoiding upcoming costs. The fee is not a substitute for regulatory activities.

The fee could provide a “price floor” for a future cap and auction permit system. A price floor would reduce the price volatility on the low end of permit prices and ensure that investments made now will reduce costs for businesses in the future. A price collapse such as occurred in the European Emissions Trading System (ETS) makes businesses hesitate to make large long-term investments in low-carbon technologies. The fee would alert businesses of the new economics of investments, and that early investments will increase in value.

The experience gained on a carbon fee will be useful in a future “auctioned” cap and trade system. The draft Market Advisory Committee report has stated that auctioning permits is the long-term goal of a cap and trade system. A fee differs from an auction in many ways, but will help build institutional knowledge that will be helpful in the future. CARB may need to coordinate with the Board of Equalization and other agencies. The sooner those issues are determined, the better. Including a carbon fee in the Scoping Plan will spur those studies and reports.

Regarding who pays the fee, the Climate Protection Campaign has advocated an upstream system for the overall cap and auction system, since upstream is the most comprehensive and easiest to implement. For the carbon fee, either upstream or midstream would work. However, a downstream fee should not bias CARB toward a downstream cap and auction system. An upstream cap and auction is still preferable. The fee could be applied in either place, as long as CARB makes this distinction explicit.

While CARB may feel that the data is not yet sufficient to implement a fee on stationary sources, the initial level of the fee will be small, and we would suggest at least a minimum or nominal fee on all emitters above a certain threshold, which would develop information and experience with the universe of emissions which eventually could be part of a full-blown permit system. For the fee, revenues may be used to support ARB’s early actions, and to increase CARB’s regulatory and administrative capacity in advance of an economy-wide market. In the eventual economy-wide market, the Climate Protection Campaign believes revenues should be divided between public goods to reduce GHGs, and per capita consumer compensation to return revenues to Californians and address the disproportionate regressive impacts of fuel and electricity prices.

The fee will also help CARB begin to understand other potential issues which will have to be addressed to make such a system work. The sooner the ARB implements a carbon permit fee, the more likely the information and understanding will be developed to make such a future cap and auction system work.

Here is a quote from the AB32 Market Advisory Committee Report: “While a price ceiling could jeopardize environmental integrity and reduce the return on investments in clean technologies, a price floor would reinforce environmental integrity and the value of clean investments. The Committee encourages CARB to consider enforcing a price floor.”

Emission Reduction Calculations and Assumptions: The fee will reduce emissions directly by providing a price signal, and a policy of escalation ahead of inflation will provide long-term guidance to companies that think AB32 is a fad that will go away. Additionally, revenues from the fee can be used to fund additional AB32 Early Action Items, and provide capacity to the ARB until a larger economywide cap and auction system is in place.

Cost-Effectiveness Calculation and Assumptions:

Implementation Barriers and Ways to Overcome Them: 1) Political Will to make companies pay a fee. Although the California Chamber of Commerce will probably oppose this, some dialogue should take place to see if they understand the importance of stopping global warming before the State and its economy turn to toast. Additionally, the State Legislature and the Governor may want to be involved in some oversight over how the revenues from the fee are used. Some coordination from CARB and the Climate Action Team could facilitate this.

Potential Impact on Criteria and Toxic Pollutants:

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