



ENVIRONMENTAL ENTREPRENEURS®

The Independent Business Voice for the Environment

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December 13, 2010

Via Electronic Submission

Chairman Mary Nichols and Members of the Board
California Air Resources Board
1001 "I" Street
Sacramento, CA 95812

Re: Comments on the Proposed Regulation to Implement the California Cap-and-Trade Program

Dear Chairman Nichols and Members of the Board,

Thank you for the opportunity to comment on the proposed regulation for the California Cap-and-Trade Program.

E2 is a national community of volunteer business leaders who promote strong policies to protect the environment and grow the economy. In California, our 565 members are entrepreneurs, investors and other professionals who collectively manage over **\$83 billion** of venture capital and private equity. In California, our members have started more than **1,000 businesses**, which in turn have created over **116,000 jobs**. E2 supported the passage of AB32 in 2006 and we strongly support its effective implementation.

We applaud CARB for its work on drafting the cap and trade regulation. The decisive defeat of Proposition 23 last month by 61% of California's voters, attests to the resounding state-wide support for moving forward on AB32 Implementation.

Overall, we believe the proposed cap and trade program sets California on a path to achieve its AB 32 emission reduction goal of returning to 1990 emission levels by 2020. Our comments address 1) the positive design elements incorporated in the current regulation and 2) include suggestions on how CARB can improve certain aspects of the program.

Strong Design Features:

We believe that strong design features will allow California to achieve the required emission reductions while also stimulating innovative clean energy alternatives to the current energy supply. We are pleased to see the following strong design features included in the proposed regulations:

- ***Sufficiently Tight, Declining Cap***
- ***Auctioned Permits***
- ***Meaningful Floor Price***
- ***Annual Review of Cap-and-Trade Program***
- ***Tough Penalty Provisions***

Suggested Improvements to Program Design:

We ask CARB to incorporate the following recommendations:

- **Treat emissions from all transportation liquid fuels equally and hold fuel providers accountable under the cap for the GHG emissions of all biofuels.** The proposed regulations currently exempt emissions from all “biodiesel” and “fuel ethanol” and do not address any other type of biofuels. CARB’s own analysis points out that ethanol made from corn starch and biodiesel derived from soybeans can actually increase GHG emissions. If ethanol and biodiesel are exempted from compliance obligations this could actually incentivize their use despite their higher GHG content. We strongly recommend that CARB close the current biofuels loophole.
- **Close the biomass loophole by accounting for emissions associated with biomass production and combustion.** Without accurately accounting for the GHG impacts of biomass energy CARB runs the risk of creating a loophole of significant, uncounted increases in GHG emissions. We strongly recommend that CARB develop reporting requirements for biomass facilities and address the resulting emissions as they do for other generation sources.
- **Set the industrial benchmark at industry best practices, not industry average.** This will ensure that only the most efficient facilities get all their allowances covered while less efficient and poorer performing facilities will have to purchase allowances. This will encourage all facilities to implement industry best practices.
- **Lower the assistance factors in the industrial sector.** While we support CARB’s efforts to prevent leakage by identifying industries that are at high, medium, and low risk and compensating them, we are concerned that the assistance factors are overly generous and will assign allowance value to industry profits at the expense of consumer benefits.
- **Provide clearer guidance to utilities on the use of allowance value in the electricity sector.** We believe that the value of allowances should be used for cost effective energy efficiency programs that help Californians lower their energy bills.
- **Clarify CARB’s authority as the final arbiter of offset credit and verification disputes.**

Thank you for considering our recommendations.

We look forward to continuing to work with CARB further on the details associated with the effective implementation of AB32.

Sincerely,

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