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For the Public Record

August 4, 2011

To: California Air Resources Board (ARB)

Re: Comment on proposed changes to Cap & Trade Regulation

Thank you for accepting these comments on proposed 15 day changes to the Cap & Trade Regulation. I am submitting these comments as a private citizen, not on behalf of any organization. Since 2006 I have attended public hearings on AB32 market mechanisms. I would like to encourage staff to consider the following design elements in its changes:

- **Move the system further upstream**
- **Move as quickly as possible towards 100% auction of permits**
- **Compensate consumers with a dividend (rebate)**
- **Limit offsets**

Question 1: Is returning allowance value to households as a dividend compatible with the regulation? My reading of the current cap and trade regulation still allows for at least a portion of allowance value to be returned to households as a rebate or dividend in two ways. First, in the electricity sector, utilities receive free allowances, turn around and auction those to generators, and then use some or all of those revenues as a dividend to consumers. (A brief comment: If the rebate is a line item on a utility bill, it will be opaque to consumers. However, if the rebate arrives separately, consumers will see the value they are receiving and connect it to a carbon pricing system.) Second, when transportation fuels enter the cap in 2015 in the second compliance period, they will presumably be auctioned to fuel providers, and those revenues may be returned to consumers as a dividend. Is this correct? Will the 15-day changes be more specific about this? Are there other ways consumers may be made whole as costs are passed down to them?

Question 2: Can ARB offer a dividend to consumers in 2012? Although only limited allowances will be auctioned into the system, even a small dividend could have a big impact on public perception of the program. The recent withdrawal of New Jersey from the Regional Greenhouse Gas Initiative (RGGI) is a cautionary tale for what could happen if allowance value is used for efficiency programs that are invisible to most consumers. Funds that were supposed to be set aside for energy and environmental uses were raided to plug state budget deficits. Because consumers did not see a direct connection to the use of revenues, the lack of consumer support failed to prevent New Jersey's new Governor from withdrawing his state from the program a few months ago. An immediate 2012 dividend could help California avoid this fate.

Question 3: How will Community Choice Aggregators (CCAs) that come into existence after 2008 receive electric utility allocations? Table 9-3, page A-124 did not list Marin Clean Energy (MCE) as a recipient of allowances. MCE is the current example of a CCA, but other local governments are investigating the feasibility of CCA. If new CCAs come online, is there a method to provide allocations to them? Of course, they should be required to return the value to their ratepayers as well.

Comment: Dividends as bridge to environmental justice concerns: ARB has heard from many advocacy groups voicing concerns about cap and trade and market mechanisms' potential impact on low-income and disadvantaged communities. Dividends can directly address their concerns about inequality and the regressive impact on poor people when energy and fuel prices rise.

ARB can start us down the path to equal ownership of this atmospheric Commons. Everyone gets the same dividend or Share. People get paid as they gain understanding that we are all involved in climate protection together. CARB can provide a template for national and international climate policy by providing equal dividends or shares to all Californians.

These comments are my own and do not reflect those of any organization with which I am affiliated.

Sincerely,

Mike Sandler