August 8, 2011

Chairman Mary Nichols
California Air Resources Board
1001 I Street
Sacramento, CA 95814

RE: Reconsideration of the Regulation to Implement California Cap and Trade

Dear Chairman Nichols:

The California Trucking Association (CTA) is pleased to have the opportunity to provide its comments on the recently released 15-Day amendments regarding the implementation of the Cap and Trade Program. CTA is the second largest trucking organization in the United States, providing comprehensive policy, regulatory and legislative support to our member companies. Our members range from one-truck operators to large international companies providing efficient goods movement. In California, trucking provides 1 out of every 15 jobs in the state.

Expansion of Allowance Price Containment Reserve Step in Right Direction
We are pleased to see that Staff has taken the legitimate concerns of stakeholders regarding uncontrolled allowance prices into consideration by increasing the amount of future vintage allowances auctioned each year from two percent to 10 percent of future allowance budgets. Without hard or soft price collars, the reserve will be the only means to control costs in the event that demand from a particular net purchasing sector overwhelms supply of allowances by the net creditors.

We would recommend that Staff and the Board take these cost control measures seriously. By subjecting transportation fuels to a cap without a hard or soft price collar, California has taken an unprecedented regulatory action. In 2008, the Government of New Zealand enacted the following regulation as part of their Emission Trading System:

- A 50% obligation applies, with participants being required to surrender one emissions unit for every 2 tonnes of carbon dioxide equivalent (CO_2-e) emissions that are estimated to result from the use of the transport fuels that are sold in New Zealand.
- An effective price cap is also in place, with participants able to pay the Government a fixed price of $25 to acquit 2 tonnes of these emissions, rather than purchasing other types of eligible emissions units at market prices.

By including a hard price collar, New Zealand recognized the unique challenges faced when trying to reduce emissions from transportation fuel. An alternative fixed price will allow some measure of predictability and protect the overall economy from massive energy price spikes artificially driven by the shortcomings of technology and infrastructure to meet reduction goals in this sector.

To date, California has not indicated it will take similar precautions.

Adequate Cost Controls Will Help Avoid Cataclysm

Unlike the Low Carbon Fuel Standard, which regulates the carbon intensity of individual fuels, this rule regulates overall carbon emissions, compliance with which could manifest itself as a de facto supply cap. The following scenario, as posed in August 2008 comments submitted to the Western Climate Initiative by Exxon Mobil, is especially troubling (emphasis ours):

> *Considering the relative sizes of the transportation and industrial sectors, a scenario could easily develop in which insufficient emissions reduction from the transportation sector overwhelms the ability of the industrial sector to generate GHG emissions reductions, and* ***the supply of transportation fuels would have to be limited to hold GHG emissions under the cap.***

We hope that it goes without saying the above, when applied to diesel, represents unmitigated disaster for both California's economic competitiveness and our industry's ability to create jobs.

Demand for Diesel Fuel Not a Matter of "Choice"

Fuel costs regularly poll as a top industry concern. From 2005-2008, the price of fuel placed no lower than third in the American Transportation Research Institute's (ATRI) *Top Industry Issues Survey.*

> "Though motor carriers in 2008 aggressively sought to recoup fuel cost increases with fuel surcharges, the industry simply could not keep pace with the unprecedented rise in diesel fuel costs, topping $4.70 a gallon in July 2008…The year 2008 was also significant in that fuel replaced labor costs as the top operating expense for most carriers."

In theory, increased prices, passed from the upstream producers to downstream "end user" would send market signals which would influence consumptive behavior. It is of note that non-commercial consumption of fossil fuels is the example most often cited as to how this market signal would function. For instance:

> *Upstream gasoline refinery increases price of gasoline due to cost associated with meeting cap (purchasing of allowances, offsets, green technology capital investment, etc.) Downstream end user is family of four with two vehicles. Family of four offsets increased cost of gasoline by eliminating certain unnecessary car trips and upgrades to more fuel efficient vehicle. Due to reduced consumption levels, higher price of gasoline is largely absorbed by family.*

The family in the above example's consumption is altered because a market factor (price of fuel) influences behavior. However, commercial motor carriers find themselves in a more complex fiscal situation. As cited in the above ATRI survey, fuel costs were the top operating expenditure for commercial motor carriers in 2008. Market signals have long encouraged our industry to seek reductions in fuel consumption. Some of the fuel saving methods and technologies employed by the trucking industry include:

- Route optimization software
- Idling reduction technology including Auxiliary Power Units and Automatic Shutoffs
- Aerodynamic retrofit kits
- Low-roll resistance tires

- Speed limiters
- Voluntary participation in the EPA's SmartWay Program
- Driver MPG reward programs

Despite taking these pro-active, non-regulatory steps to conserve fuel, the goods movement industry remains vulnerable to diesel price fluctuations. The idea that further price increases from a potential upstream cap would result in reduced consumptive behavior from commercial motor carriers is a terribly misguided assumption.

Please feel free to call me if you have further questions at (916) 373-3562.

Sincerely,

Eric Sauer
Vice President, Policy Development
California Trucking Association

cc: Members, California Air Resources Board
Michael Shaw, Vice President of External Affairs, California Trucking Association