CLIMATE PROTECTION CAMPAIGN

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Dear Chair Nichols and Members of the Board,

Thanks for your leadership on climate policy in California and the nation. Your staff has held intensive public processes to learn from the experiences of others and put together a comprehensive climate program that caps total emissions and utilizes a combination of market forces and regulations to reduce greenhouse gas emissions by the year 2020. The proposed Cap & Trade regulation is at the heart of this program and we would like to take this opportunity to suggest way to improve the regulation to help reflect the intent of AB 32.

Cap and Trade can take many different forms. Depending on how it is set up, it may benefit a few special interests, or it may help every person in the state. The following design elements would help to insure that benefits are shared by every person in the state:

- An upstream system
- 100% auction of permits
- Compensating consumers with a dividend or rebate
- Carbon fees to fund important programs
- A price floor on allowances

Some of these recommendations are already incorporated in to the proposed Cap & Trade Regulation. The price floor of $10/ton is in there. Thank you. We also commend the design of the transportation fuels sector, which is regulated upstream, and starting in 2015 it will auction 100% of permits. Consumer compensation is recognized in the language for use of allowance value, and utilities are required to protect ratepayers. This is a good start.

Unfortunately, in the current proposed regulation too many free allowances are given to the industrial sector emitters, and auctioning is implemented too slowly. In the electricity sector, the utilities are given too much discretion in how they will comply with the mandate to return the allowance value to ratepayers. But it is a good start, and we hope CARB will continue to improve the program through 2011-12.

Here are our suggestions for critical improvements:

In the industrial sector, the free allocations are excessive and should be reduced. Free allocations based on industry-specific benchmarks encourage some moderate efficiencies, but may disadvantage innovators (for example, Calera, Inc., a new company that produces carbon negative cement products). How many free allowances would a start-up like Calera get in relation to an incumbent cement factory? Free allocations may prevent "leakage" of the old technology by shielding business-as-usual from the carbon price.

In the electricity sector, we urge you to direct utilities to protect ratepayers by returning allowance value directly to residential customers as a rebate check. Your clear statement of your intent here will assist the PUC as it deliberates how to apply this portion of the regulation to utilities. Allowing utilities to use allowance value for a vaguely-defined "ratepayer benefit" gives too much discretion to the use of billions of dollars, which is coming out of Californians pockets in the form of higher fuel and electricity prices.

We urge CARB to follow recommendations from the EAAC, the PUC and CEC and regarding allocating to utilities. Any consumer rebate from utilities should not show up as a line item on electricity bills, shielding consumers from the price signal and discouraging changed behavior.

The rebate must be separated from the utility bill. It should come to consumers as a "lump-sum transfer," which could be implemented through a dividend or rebate check. The customer would still receive the carbon price signal on their utility bill, but would receive a rebate check to help buffer them from the regressive impact of increased electricity prices.

A clear signal should be sent to the utilities that rebates should not be based on the volume of the ratepayer's consumption. The purpose of AB 32 is to incent a decrease in carbon intensive activities not reward large consumers of electricity.

We favor the EAAC's recommendations that "The largest share (roughly 75%) of allowance value should be returned to California households..." in the form of a dividend check. The remaining 25% would be used for a variety of purposes including preventing leakage (a very small percent), investments in renewables and energy efficiency, and a Community Benefits Fund. If the public receives a 75% dividend and utility rebate checks, they will understand that they have the ability to reduce their emissions and turn the program into a moneymaker and not a tax. This approach to revenue allocation could actually build public and political support for the implementation of this law over time.

More importantly, AB 32 requires that the regulations that your board approves "ensure low-income communities are not disproportionately impacted." Without a dividend or rebate low and middle income citizens <u>will be</u> disproportionately impacted by increased energy prices creating an economic hardship and potential political backlash against the implementation of the law.

Thanks for all of your work on the implementation of this critical law.

Sincerely Yours,

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