

**Mike Sandler
19 Tern Ct.
San Rafael, CA 94901**

December 9, 2010

To: The California Air Resources Board

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

Dear Chair Nichols and Members of the Board,

Under your leadership, California has been a national leader in climate policy. 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 recent election allowed the California electorate to vote on preserving AB32, and the results showed that given the choice, a large majority of Californians want a healthy environment to pass on to their children, and a green economic recovery. The Cap & Trade program can help make that happen.

Cap and trade is not a single thing. 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 every person in the state:

- **An upstream system**
- **100% auction of permits**
- **Compensating consumers with Cap and Dividend**
- **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. The transportation fuels sector is regulated upstream and starting in 2015 it will auction 100% of permits. Well done. 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, 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 I hope you will continue to improve the program at the Dec 16th Board meeting and through 2011-12.

Additional comments:

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

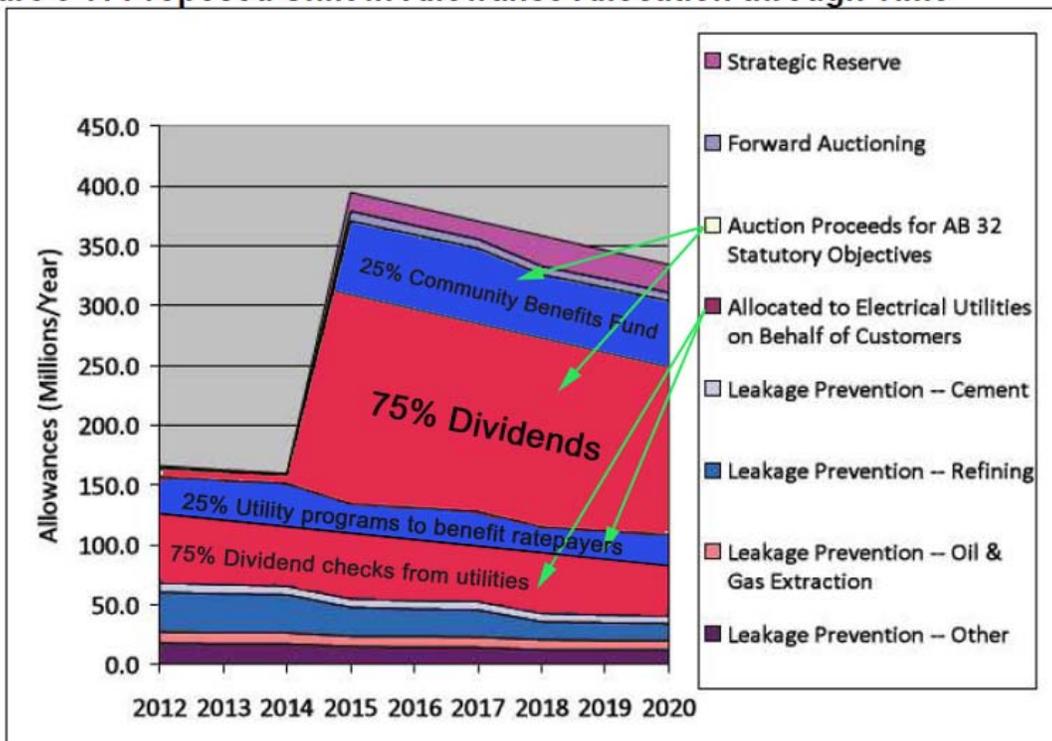
disadvantage innovators (for example, Calera, Inc., a new company that produces carbon negative cement products). How many free allowances would a start-up like Calera get in relation to an incumbent cement factory? Free allocations may prevent “leakage” of the old technology by shielding business-as-usual from the carbon price.

In the transportation sector, once again, kudos for the auction, and for directing auction proceeds to benefit Californians.

In the electricity sector, I urge you to direct utilities to protect ratepayers by returning allowance value directly to residential customers as a rebate check. 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. At the very least, CARB should require the utilities to consult with local governments and stakeholders, with special attention to those with local GHG reduction goals (a bill, SB730, that passed the state legislature last year would have done this with the public goods charge). But CARB should go beyond the very least. Following recommendations from the EAAC, the PUC and CEC should reconsider their recommendations to allocate 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 following chart (Figure J-7 adapted from the proposed regulation) illustrates my recommendations for the overall use of allowance value.

Figure J-7: Proposed Shift in Allowance Allocation through Time



The rebate must be separated from the utility bill. It should come to consumers as a “lump-sum transfer,” which should be implemented through a dividend 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.

My recommendations for Figure J-7 follow the EAAC 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. In the figure above, I used the Community Benefits Fund as the vehicle for investing the 25%, providing communities with input as to how this portion is spent. Alongside the 75% dividend and utility rebate checks, the public will understand that they have the ability to reduce their emissions and turn the program into a money-maker and not a tax.

Is there a constituency for dividends? I believe so. Here are some websites listing some supporters.¹ Please also check my website at www.carbonshare.org for additional resources, including a dividend check that you can personalize and print yourself.

Finally, I ask CARB staff to double check the public comments on the webpage to make sure that they are being sent from real people with real email addresses. Having spent time battling climate deniers in the blogosphere, I wouldn't be surprised if some of them are traced back to one lone Tea Partier pretending to be 100 people. And on that note, these comments are my own, and do not reflect those of any organization with which I am affiliated.

Thanks again for your work. The planet depends on you.
Sincerely,

Mike Sandler
San Rafael, CA

¹ City Councils Endorse the CLEAR Act <http://www.carbonshare.org/localactions.html>
CalEPA News release 1-12-09: <http://www.calepa.ca.gov/PressRoom/Releases/2010/Jan11EAAC.pdf>
Quotes from the EAAC members' final meeting <http://www.carbonshare.org/docs/EAACQuotesfinalmtg.doc>
66 citizen comments on Draft MAC Report http://www.climatechange.ca.gov/events/2007-06-12_mac_meeting/public_comments/Three%20Principles%20-%20List%20of%20comments%201.pdf
Letter from 12 US Senators on the CLEAR Act Principles <http://whitehouse.senate.gov/newsroom/press/release/?id=c8be8858-aa1e-4872-b41e-670fc98b11cb>
Letter from faith organizations on the CLEAR Act (Faith Economy Ecology Working Group) <http://www.theshalomcenter.org/node/1703>
Statement on the CLEAR Act from dozens of organizations including 350.org <https://salsa.democracyinaction.org/o/423/images/CLEAR%20Act%20sign-on.pdf>