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July 23, 2007

Ms. Mary D. Nichols
Chair
California Air Resources Board
1001 "I" Street
Sacramento, CA 95812

RE: **Recommendations for Designing a Greenhouse Gas Cap-and-Trade System in California**

Dear Ms. Nichols:

On behalf of the members of the California Retailers Association, we commend the Market Advisory Committee on their "Recommendations for Designing a Greenhouse Gas Cap-and-Trade System for California." It is an important document that lays the groundwork for implementation of AB 32 and establishes a framework on which fair and equitable compliance mechanisms can be established.

We appreciate this opportunity to provide additional feedback to you so you may consider it in your implementation of AB 32 rules. After reviewing the final report from the Market Advisory Committee, we were disappointed to see that many recommendations made by business stakeholders during the comment period were not incorporated. Below is a brief description of key issues for our members that we feel should be included in the future as part of the implementation of AB 32.

In general, we are concerned that the recommendations of the Committee as represented in the Market Advisory Report will not produce carbon reductions at the lowest possible cost. This ultimately could act as a deterrent to operating a business in California and raising the cost of goods produced and sold. Furthermore, the recommendations may penalize the early action achievements already completed by environmentally-conscious companies that are participating in greenhouse gas reduction programs.

Specifically, we believe the following concepts are essential to the successful implementation of AB 32:

- Any cap-and-trade carbon market developed by California should be designed to facilitate linkage or integration with other cap and trade programs including voluntary programs and should not have geographic restrictions. It is critical that mandatory and voluntary programs are linked to produce the most efficient and cost effective carbon market. Without linkage, you run the risk of creating a fragmented market that will limit the transparency and liquidity of the market.

- Allowances should be allocated not auctioned. If allowances are auctioned, there will be little incentive for stakeholders to do anything except the bare minimum to meet compliance. The result will be an illiquid market without incentive for traditional market makers to participate. Allocated allowances, in conjunction with proper regulatory oversight, will achieve the desired result of a liquid market with multiple participants.

- The program must provide certainty to attract early actions and adoption by voluntary participants. Once the rules are established, the market needs to be confident that they will not change.

- A phase-in approach with voluntary opt-in for all entities. Voluntary opt-in will help produce carbon reductions at the lowest possible cost, allowing those not impacted by the legislation to participate in the market.

- Credit should be given for the early action of all market participants. All early action activities need to be considered, provided that it can be established that GHG reduction has occurred. This includes energy efficiency projects and renewable and clean energy procurement.

- Indirect emissions should be considered in the development of a baseline and the creation of carbon offsets. The offset should reside with the entity that has made the investment.

- Practical rules regarding adjustments to the baseline from growth or contraction must be considered.

We appreciate the opportunity to comment on the Market Advisory Committee report and again compliment the Committee for their work and dedication to this critical issue. Our industry looks forward to continuing to work with you and your team in the months ahead to provide additional input and recommendations and to ultimately see the creation of a GHG market that is fair and equitable to all stakeholders.

Sincerely,

B. Dombrowski

Bill Dombrowski
President