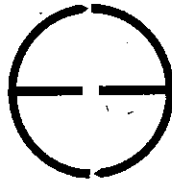


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## CCEEB Talking Points for the July 27, 2007 hearing of CARB on the California Market Advisory Committee Report

TO: Members of the California Air Resources Board  
RE: Report of the California Market  
Advisory Committee  
DATE: July 27, 2007  
FROM: Robert W. Lucas

### CCEEB Appreciates work of California's Market Advisory Committee

- CCEEB appreciates the excellent work of the Market Advisory Committee in reviewing and considering implementation options for a market based system under AB 32. We further appreciate their recommendations in support of a well-designed market program, in particular:
  - The importance of regular review of program implementation coupled with a broad but incremental and gradual approach.
  - The importance of linkages to other systems.
  - The use of high quality offsets without geographical restrictions.
  - The importance of Banking.

### Allowances

- On other topics, CCEEB takes issue with the recommendations of the MAC. With reference to the discussion of allowances on pages 55-59 and elsewhere, CCEEB encourages the CARB to emphasize the importance of historical and performance based methods to determine the allocation of allowances in the beginning implementation years of AB 32.

## **Auctions**

- To the extent that auctions are used, CCEEB believes they should be used sparingly and only as a supplement to the allocation of sufficient allowances to buffer the economic impact to affected generators, with auction revenues dedicated solely to achieving emission reductions, supporting technology development and, demonstration projects. Otherwise an auction will function as a tax, and potentially a very large tax!

## **Ability to Pass Through Costs**

- CCEEB also questions the MAC assumption that the imposition of carbon costs can for the most part be passed through to consumers by virtually every sector (page 56). CCEEB urges significant additional study on this point. CCEEB also believes that it is essential that everyone in a given sector be treated the same so that allocations do not favor or disfavor comparably situated market participants.

## **Safety Valve**

- CCEEB strongly supports some form of a safety valve that would reduce the economic uncertainty of a market-based cap-and-trade system. The safety valve would be a way to limit economic costs if low-cost reduction options fail to achieve the desired reductions. CCEEB urges CARB to reconsider the MAC's recommendations on this point and to instead support the imposition of a periodic review mechanism that can make necessary adjustments to avoid severe market fluctuations.

## **EPRI Model**

- In addition to the release of the MAC's report, CCEEB would like to recognize the recent issuance of the EPRI (Electric Power Research Institute) Analysis of California Climate Initiatives. The EPRI study helps to demonstrate the importance of the role that a market program can make, particularly in relation to the traditional regulatory approach.

### **Broadest Market Will Reduce Costs**

- EPRI concludes that implementation options based on the broadest, market-based cap-and-trade program will likely be more cost-effective than a sector-specific program of command-and-control regulations, or an approach that covers only one part of the State's economy. Sector specific caps on CO<sub>2</sub>, which is a proxy for command and control programs, is shown to cost 30% more or an additional \$70B in present value.

### **Under Best Market Circumstances CO<sub>2</sub> Costs Are High**

- Even under a pure trade scenario, but without offsets, EPRI projects a CO<sub>2</sub> price to increase to \$100/ton of CO<sub>2</sub> to meet 2020 target.

### **Importance of High Quality Offsets**

- CCEEB is pleased to note that the MAC recognizes the importance of high quality offsets to help reduce the cost of implementing AB 32. California's Climate Action Team Report (March 2006) suggests various in-state forestry activities could provide offsets that would augment the cap. EPRI used this CAT estimate and found that forestry offsets could provide a cost-savings of \$33 billion through 2050, equal to a reduction of 14% of the \$229B present value of the pure trade scenario. Allowing more flexibility through the use of offsets without geographic restriction would reduce the cost further.

### **Well Designed Cap & Trade Program Will Not result in Hot Spots**

- Finally, CCEEB concurs with the MAC observations on pages 9 and 83 that a well-designed cap and trade program will yield significant reductions in emissions of local pollutants and will not result in emission hotspots or affect existing regulations for criteria pollutants.

## **Continuing Work With CARB**

- We thank the MAC again for its efforts and good work. CCEEB stands ready to work with CARB in the design of a cap and trade program that will allow the least cost implementation of AB 32 with ultimate linkage to other regional, national and international trading programs.

Please contact Bob Lucas at (916) 444-7337 or [bob.lucas@calobby.com](mailto:bob.lucas@calobby.com) if you wish to discuss this further.

Thank you.