



July 27, 2011

The Honorable Mary Nichols
Chair, California Air Resources Board
1001 I Street
Sacramento, CA 95814

Subject: **CalChamber's Comments on the Supplement to the AB 32 Scoping Plan
Functional Equivalent Document as released June 13, 2011**

Dear Chairwoman Nichols:

The California Chamber of Commerce (CalChamber) appreciates the opportunity to comment on the California Air Resources Board (CARB) Supplement to the AB 32 Scoping Plan Functional Equivalent Document (FED).

The CalChamber is the largest broad-based business advocate in the state, representing the interests of nearly 15,000 California businesses, both large and small. As the representative of California businesses both directly and indirectly impacted by the promulgation of AB 32 regulations, CalChamber strives to remain a constructive voice throughout the AB 32 implementation process in order to advance the greenhouse gas (GHG) emission reduction goals in a cost-effective manner while protecting California businesses and allowing for economic growth.

CalChamber has long maintained that if designed appropriately, a market-based mechanism such as the cap-and-trade, has the ability to garner significant GHG reductions in a cost effective manner. A well designed cap-and-trade program can provide cost savings for AB 32 implementation and create market incentives that will encourage the innovation and creativity that drives California's economy. To minimize emissions and economic leakage, it is important that key features of such a program include free allowance allocation, a broad use of offsets, and the ability for seamless linking to a regional or federal program. As the state recovers from one of the hardest economic recessions of our time, it is important that CARB also consider trade exposure, the economy and job leakage impact to capped industries within the design elements of a program as it moves forward with the FED.

Contrary to a market based mechanism, direct command and control regulations are too prescriptive, they increase compliance costs and do little in terms of driving economic innovation. Command and control regulations are also limiting and are only applicable to in-state facilities whereas a market based mechanism can expand beyond the state's jurisdiction with a potential linkage to regional, national and international programs. Likewise, a carbon tax policy may provide predictability but it is not necessarily cost-effective and would do little to spur economic and technological innovation.

CalChamber has expressed concern with the treatment of fuels under CARB's current proposed cap-and-trade system in previous comments to CARB, and with the revision of the FED, we believe it is appropriate to request that the 2015 inclusion of transportation fuels be revisited. With no Western Climate Initiative (WCI) trading partners ready to link, California will be alone in such a program. A California-only fuels under the program should be further evaluated with all economic impacts taken into consideration – including cost and consideration for the fact that California is already implementing the Low Carbon Fuel Standard (LCFS). Given the importance of transportation on California's economy, and the significance of energy costs to nearly every resident and business in the state, it is imperative that CARB do a thorough analysis of the economic impact of CARB's current proposal to include fuels in a unilateral cap-and-trade program; making sure that costs are minimal and total benefits to California are maximized.

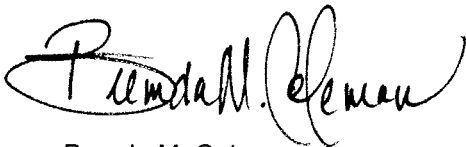
To ensure GHG reductions are achieved while maintaining the competitiveness of California businesses and the health of the economy, it is critical for CARB to monitor key indicators of not only the GHG reductions that are occurring, but also indicators of the health of California's economy. As expressed in earlier comments of the Scoping Plan in 2008, evaluation of all the economic impacts is of utmost priority and essential in order to keep the program's credibility. We urge CARB to identify and monitor these key indicators and correct any inadvertent problems that may occur before significant damage is done to California's economy or environment.

We also urge CARB to include a periodic review process of the AB 32 Scoping Plan to ensure emission reduction goals are being met in a manner that is both economically efficient and environmentally sound. Periodic Scoping Plan reviews should include impact assessments of a California-only program to ensure that it meets the economic and emission reduction goals of AB 32. While it's important to ensure the GHG goals of AB 32, it is equally important that consideration and oversight be given to any and all economic impacts, including those industries that would be both directly and indirectly impacted as a result of economic leakage. As CARB moves forward, we hope that these and other important issues are addressed with much diligence and oversight via an open forum that allows for public participation and comment in order to ensure transparency in the process and maintain integrity in the program.

Again, we appreciate your consideration and the opportunity to comment on the Supplement to AB 32 Scoping Plan FED.

Should you have any questions, please feel free to contact me at (916) 444.6670

Sincerely,

A handwritten signature in black ink, appearing to read "Brenda M. Coleman". The signature is fluid and cursive, with the first name "Brenda" being the most prominent part.

Brenda M. Coleman
Policy Advocate