California Council for Environmental and Economic Balance
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December 16, 2016

Ms. Rajinder Sahota
Branch Chief, Cap-and-Trade Program
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Dear Ms. Sahota:

On behalf of the members of the California Council for Environmental and Economic Balance (CCEEB), we wish to provide you with our comments on the December 1, 2016 discussion draft for the 2030 Scoping Plan update. CCEEB is a non-profit, non-partisan association of business, labor, and public leaders, which advances balanced policies for a strong economy and a healthy environment.

Process

CCEEB appreciates regular and meaningful opportunities to provide input on developing policies. This is particularly true for the 2030 Scoping Plan because of the profound impact the plan will have in shaping California's energy future and economy. We are concerned that ARB is moving forward to develop significant new concepts without adequately considering and responding to public comments, and with little time given to stakeholders to fully analyze staff proposals. For example, the recent process has only given stakeholders two weeks in which to provide comments, as shown below.

November 7: Scoping Plan scenarios presented at workshop
November 17: Scoping Plan update to board meeting with further amendments
November 21: Comments due on scenarios
December 2: Discussion Draft Plan released, no response to workshop comments
December 16: Comments due on Discussion Draft

CCEEB believes that the seven working days between the close of the workshop comment period and the release of the discussion draft was too short for staff to adequately consider public input, questions, and concerns. There are substantial gaps and some concerning inconsistencies that have not been addressed in this most recent draft. In order to have a robust and iterative public process, CCEEB requests that staff extend future comment periods and publicly respond to comments submitted. This would correspond with the process used for the 2014 Scoping Plan Update, which allowed stakeholders a month to respond to the discussion draft[1] and six weeks to

[1] https://www.arb.ca.gov/lispub/rss/displaypost.php?pno=7062

respond to the proposed draft.[2] Furthermore, we believe that it is not enough to simply post public comments and that staff should "show its work" and explain how comments received have been considered in development of the draft plan.

The discussion draft presents important new policies but lacks citations for background data and explanation of underlying assumptions. This missing information is needed in order for stakeholders to fully evaluate new proposals in the Scoping Plan scenarios. Scoping Plan scenarios should not be considered without knowing the full environmental and economic details and related impacts that the proposed policies may have on the state.

In particular, full access is needed to the data inputs and outputs used by ARB and E3 in the PATHWAYS model. Data transparency allows for robust and accurate analyses on the proposed scenarios and potential alternatives. Without this critical information, stakeholders are at a disadvantage and unable to provide meaningful input. CCEEB is also concerned that, without this information, ARB is sending incomplete policy signals to the public and policy makers. In prior stakeholder processes, the ARB has released all PATHWAYS modeling files. We urge ARB to follow precedent in releasing all modeling data to maintain data-transparency and the integrity of the stakeholder process. CCEEB will continue to work with staff to identify and address data and information gaps in the discussion draft. A technical working group or workshop could also help resolve these issues.

Criteria for Analysis

CCEEB supports ARB outlining the details of the criteria it uses to evaluate Scoping Plan alternatives and for providing qualitative evaluations of each of the three alternatives. However, CCEEB believes that key criteria are missing and that emphasis is warranted on the achievement of the GHG emission goals (including protections against leakage), cost-effectiveness (including compliance flexibility), and leadership (including programs that can be exported to other jurisdictions). These criteria comport with program requirements established in AB 32 and SB 32.

In addition, while we understand that economic modeling will be addressed in more detail in the January 2017 draft Chapter V, we encourage the inclusion of cost information in some form (e.g., cost-effectiveness or total cost) as its own column in Table III-3 to help provide additional clarity to the tradeoffs across alternatives. We note this would be similar to ARB's current treatment of GHG reduction that is included in Table III-3 in a summary manner and will be addressed in more detail in Chapter V.

We have several further suggestions regarding the table templates in Chapter V. First, we ask ARB to include the same rows in the emissions table (Table V-1) as it does in the cost table (Table V-2). In the discussion draft, the measures listed in these two tables are inconsistent and not aligned. Second, we support the discussion draft's approach to include both known commitments and new and modified measures in the row. This detailed information by measure is critical in order to assess the tradeoffs across measures and broader plan alternatives. Third, on the cost metric, we encourage ARB to include both estimates of total (or average) cost as well

[2] https://www.arb.ca.gov/cc/scopingplan/comments.htm

as estimates of marginal cost. The latter can be particularly helpful in judging the proposed stringency of measures, therefore it is critical to include. After all, policymakers must choose which measures to include as well as the stringency level of each measure.

Regarding the initial evaluation itself, as reflected in Table III-3, we encourage ARB to bring into its evaluation of the "ability to reduce GHGs to meet 2030 target" criterion a discussion of uncertainty that ARB itself (through the sensitivity analysis) and its academic advisors have highlighted. There is much uncertainty in both the business-as-usual GHG emission forecast and the expected GHG abatement potential from complementary measures. A discussion of this uncertainty is important to include in order to reasonably evaluate the Scoping Plan alternatives relative to the "ability to meet the 2030 GHG target" criteria. We note that Alternative 1 would provide significantly less certainty than the Draft Scoping Plan Scenario, even if the 5 MMT CO_2e shortfall in the Pathways modeling is closed through additional measures identified in the January 2017 draft plan.

Economics

CCEEB is disappointed with the lack of emphasis on the economic impact of the proposed scenarios and would like to see more robust emphasis on this, both in terms of the compliance facilities and regulated sectors as well as impacts to California workers and households. Carbon policy in many ways is economic policy. California's post-2020 climate policies will invariably affect the economic outcome of the state, jobs, and quality of life for all Californians. Statements about leakage, what percentage of economic loss is acceptable, and which sectors will carry the burden, should not be taken lightly. Recent workshops revealed that it is unclear to staff and the public what level of sacrifices are deemed politically and socio-economically acceptable to a broad cross-section of Californians.

We note that the 2030 goal, on an absolute basis, which is the basis of AB32 and SB32, the rate of emission reductions from 2021-2030 is 5x (from 1%/yr -> 5%/yr) versus those from the GHG peak in 2004 to 2020. This will create economic drag. Proposing any policy that is not the most economically efficient way to reduce greenhouse gases will unnecessarily hurt Californians who already have some of the highest costs of energy and living in the country. It is imperative that ARB retain cost-effectiveness as a principal consideration and minimize the economic drag a carbon policy creates in order to maximize technologically feasible reductions while reducing the regressive impacts on low to middle income households and small businesses.

Alternative 3

CCEEB reiterates our November 21, 2016 comments that ARB should analyze an additional alternative. This alternative would be a Cap-and-Trade approach in which complementary measures are only used for existing mandated policies and to make up for market failures. All other emission reductions post-2020 would be achieved through the Cap-and-Trade program. Under this scenario, California could set one of the most transparent carbon prices in the world, based on the real cost of carbon reductions, rather than setting an arbitrary number or artificially hiding costs through extraneous add-on policies. CCEEB's proposed "Alternative 3" would help inform the full range of parameters under consideration by the Board and the Legislature (i.e., mainly Cap-and-Trade, mainly direct measures with Cap-and-Trade as a backstop, and all direct measures with no Cap-and-Trade, and a carbon tax).

Direct Facility Regulations

CCEEB has continually supported the Cap-and-Trade program as the best way to achieve emissions reductions under the statewide goals set by AB 32 and now SB 32. Cap-and-Trade results in direct facility reductions. Direct facility regulations, as proposed in the refinery rule (all alternatives) and industry rules (Alternative 1), sets a precedent that undermines the very principles of the Cap-and-Trade program. As stated in the 2010 staff report for Cap-and-Trade, "By establishing a limit for the program overall rather than for individual sources, the cap-and-trade program gives sources the flexibility to make the most cost-effective choices about when and how to reduce emissions."[3] From an economy-wide perspective, this encourages the most economically efficient direct reductions while providing a funding mechanism for reductions that cannot be directly regulated and for advancement of new technologies. As ARB's Market Advisory Committee pointed out, "It also reduces economic impacts on workers, consumers, and taxpayers."[4]

Direct facility regulations remove the inherent flexibility that allows a Cap-and-Trade program to work efficiently, and creates real risk of emissions and economic leakage. In the discussion draft, staff has not provided a clear rationale as to why this measure is needed nor how it arrived at the reduction goal. If for GHG purposes, it merely shifts reductions to a specific sector without increasing total reductions across the economy both for refinery emissions and fuels which are under the cap, and with the likelihood of increased costs. If the purpose is to increase the cost of transportation fuels (which would surely occur), it is unclear whether and to what extent this would dampen demand for fuels, and costs would be extremely regressive with no mechanism to provide relief to low-income drivers and small businesses (and as such, would go against AB 32 mandates). If the purpose is to reduce the carbon intensity of fuels, it is unclear how improving combustion efficiency would achieve this above and beyond the Low Carbon Fuel Standard (and, in all likelihood, could run afoul of needed process changes to comply with the LCFS). If the purpose is to force reductions of local air toxics and criteria pollutants, then, at best, it ignores existing regulatory and legal frameworks established to control these pollutants and may even conflict with them (and rulemaking for this purpose would certainly be challenged in proving "necessity" under State code). The supposition that there will be additional co-benefits lacks evidence and data to indicate that this direct measure will result in incremental GHG reductions – as the reductions would already occur under the Cap-and-Trade program. ARB has

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[3] https://www.arb.ca.gov/regact/2010/capandtrade10/capisor.pdf

[4] In its 2007 recommendations to the ARB, the MAC further pointed out, "A cap-and-trade program has other attractions as well:

- Administrative costs can be lower because regulators are relieved of responsibility for establishing specific targets on a facility-by-facility basis.
- The approach encourages innovation and reinforces technology-promoting policies.
- Broad coverage reduces the potential for shifting rather than reducing production and emissions ("leakage").
- Well-designed programs provide certainty about monitoring obligations and consequences for noncompliance.
- Such programs are likely to prompt further reductions in local air pollutants."

The MAC recommendations were consistent with work done by subsequent economic advisory committees, including the Economic and Allocation Advisory Committee and the Emissions Market Assessment Committee. Together, the work of these economic advisory committees informed ARB's design of the Cap-and-Trade Program.

no way of knowing (or comparing) how the emission reduction would be accomplished by the Cap-and-Trade program in the absence of the direct measure – and there is no way to tell what the co-benefits of that activity would have been – or that the co-benefits of a direct measure are greater than that of the Cap-and-Trade program. CCEEB asks staff to engage with us on this measure to better explain the purpose this measure and the process by which it would be developed and implemented.

Conclusion

In closing, CCEEB believes that there is a great opportunity for California to continue to show global leadership on climate change by relying on the Cap-and-Trade program to make cost-effective greenhouse gas emission reductions. However, CCEEB remains concerned that prescriptive mandates will increase costs, limit the benefits, and constrain the potential for broader linkage. In so doing, California would sully its international standing as a leader in climate change and impair its ability to have meaningful impacts on global GHG emissions. CCEEB looks forward to discussing additional alternatives with ARB that could alleviate economic and environmental impacts while enhancing California's ability to reduce GHG emissions in the most economically efficient means possible.

Thank you for your consideration. We look forward to discussing our comments with you at your convenience. Please contact me or Jackson R. Gualco, Kendra Daijogo or Mikhael Skvarla, CCEEB's governmental relations representatives at The Gualco Group, Inc. at (916) 441-1392.

Sincerely,

Gerald D. Secundy

GERALD D. SECUNDY
President

cc: Honorable Chair & Members of the Air Resources Board
Mr. Richard Corey
Mr. Jakub Zielkiewicz
Ms. Sara Nichols
Ms. Stephanie Kato
Ms. Emily Wimberger
Mr. Bill Quinn
Ms. Janet Whittick
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