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For the Public Record

September 17, 2016

To: California Air Resources Board

Re: Comments on the Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation and the 2030 Target Scoping Plan Update

Since 2006 my comments have consistently encouraged the California Air Resources Board (ARB) to return most or all of the auction proceeds to the public following the Cap & Dividend model.¹

Cap & Dividend: The State's current plan is to devote hundreds of millions of dollars from Cap & Trade funds towards high-speed rail and transit-oriented development, as well as other projects. These may be fine projects in and of themselves, but by what metrics are they the best uses of Cap-and-Trade funds? One reason for skepticism is that due to the economics of Cap and Trade, using permit revenues for projects that reduce emissions may only shift emissions between sectors under the cap. Emission reduction projects in certain sectors may reduce the price of the permit in that sector, but this only serves to create space under the cap that will be filled by emissions from other sectors. The overall level of emissions is determined by the cap, not by the price of the permit. Certainly collective action is required to meet long-term climate goals, but returning a majority of permit value back to households, and making those dividends taxable would boost tax revenues, allowing the State to still put forth projects. I request ARB respond to this issue in its communications regarding the post-2020 Scoping Plan and other documents. I also request ARB staff inform the Governor, the Legislature, and the public about the Cap & Dividend model as an alternative (and simpler) solution to implementing a carbon price to meet the goals of AB32 and SB32. Given the current program's legal uncertainties, passing another bill with a two thirds majority may be required anyway, and the dividend approach should be an option.

Climate dividends are similar to anti-poverty movements focusing on the concept of "[basic income](#)," and international development efforts promoting "[unconditional cash transfers](#)." It would be congruent with the State's efforts at establishing a [State Earned Income Tax Credit](#) (EITC).²

¹ An archive related to this work is at <http://www.carbonshare.org/californiaAB32.html#advoc>. My recent articles "Five Ways to Improve California's Cap and Trade System" are on Huffington Post at http://www.huffingtonpost.com/mike-sandler/five-ways-to-improve-cali_b_7869250.html and "For California's Post-2020 Cap And Trade, Give Money To People" at http://www.huffingtonpost.com/mike-sandler/for-californias-post2020_b_11501416.html

² <http://calbudgetcenter.org/blog/proposed-state-eitc-would-significantly-boost-the-incomes-of-californias-lowest-earning-workers/>

Reduce giveaway of permits to industry: The fear of “leakage” has led to the program’s subsidies to the fossil fuel industry, which receives millions of permits for free (even though they mostly oppose the program). The Petroleum Refining, Natural Gas Extraction, and Cement sectors received over 49 million free allowances in 2016. At \$12.73 [per allowance](#), that subsidy is [worth](#) over **\$629 million per year**. Reducing or eliminating this subsidy would help bolster demand which has been lagging in recent permit auctions.

Move the Climate Credit Off-bill: The California Public Utilities Commission has mandated utilities return the revenues from their “consigned allowances” back to the ratepayers through a [California Climate Credit](#) that appears twice a year on electricity bills. Post-2020 the State could expand that to an off-bill per-capita dividend that would be simple, transparent, and be inclusive of disadvantaged communities not just coastal cities. Please see my comment on the 2013 Investment Plan for additional information on suggestions for how to include a Household Dividend and a Transportation Dividend as steps toward a more general Climate Dividend.³

Many people do not understand climate dividends. It is about transforming the economic system, not about funding specific projects. I urge ARB staff to read Peter Barnes’ books, including *Who Owns the Sky?*, *Capitalism 3.0*, and *With Liberty and Dividends for All*.

California has shown leadership on climate change by creating a price on carbon. It can improve the program in its next phase, and perhaps gain supporters for the program’s extension, by decreasing subsidies to the fossil fuel industry, and depoliticizing the way funds are used by moving the funding for environmental programs into the regular budget process and returning Cap & Trade revenues back to people as climate dividends.

Thank you for your consideration.

Sincerely,

Mike Sandler

http://www.mercurynews.com/california/ci_28114306/california-budget-brown-set-release-revised-spending-proposal

³ <http://www.arb.ca.gov/lists/com-attach/209-ghgreductfund13-VDdQQNvU20AY1c5.pdf>