CLIMATE PROTECTION CAMPAIGN

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March 8, 2013

Response to ARB Request for Public Input on Cap-and Trade Auction Proceeds Investment Plan

Thank you for this opportunity to comment. Our comments address two major topics, dividends and investment.

Dividends – The Best Use of Proceeds

Since 2006 when our organization became involved with AB32 Implementation, we have consistently encouraged the California Air Resources Board (ARB) to auction allowances to upstream emitters, include a rising price floor, and return auction proceeds to the public as dividends. Returning auction proceeds to the public on a per-capita basis as dividends following the Alaska Permanent Fund model is the best use of revenues under the AB32 cap-and-trade program.

Benefits of dividends are:

- Making Californians whole – AB32 revenues don't materialize out of thin air. Ultimately they come from Californians paying higher prices.
- Addressing equity – Economic analyses project that about 80% of Californians will come out ahead with dividends, and that those in the lower economic brackets benefit proportionately more. Thus, dividends help meet the SB535 requirement that the investment plan allocate a minimum of 25% of revenue to projects that provide benefits to disadvantaged communities and a minimum of 10 percent of the available moneys to projects located within such communities.
- Building durable support for California's bold climate protection legislation. When Californians receive their climate dividend and a ka-ching in their bank account, they will directly experience the benefit to them of climate protection.

Dividends accomplish the AB32 goals relating to equity, and maximizing additional environmental, economic, and overall societal benefits.

The AB32 Economic and Allocations Advisory Committee recommended that "the largest share (roughly 75%) of allowance value should be returned to California households… through lump-sum payments…" and "roughly 25% of this value used to finance socially beneficial investments and other public expenditures."

The California Public Utilities Commission recently adopted a climate dividend policy for revenue generated in the electricity sector. In announcing its decision, the Commission wrote, "Returning revenues equally to all residential customers is more equitable and comports with the idea of common ownership of the atmosphere given that residential ratepayers will ultimately bear the increased costs as a result of the Cap-and-Trade program."

The need for dividends will become more pronounced in California in 2015 when the transportation sector enters the program. Consumers will feel more pain in their wallets and lives from higher fossil fuel prices. The best way to defuse a potential political backlash is to give Californians a dividend and make them whole.

The State of California is desperate for revenue. But so are the people of California. The good news for the State is if it is done in the right order, **both will benefit if the money is sent directly to the people with dividends, and dividends are made taxable**. This would result in a portion of funds coming back to the State through taxes, and those funds would now be free of the *Sinclair* restrictions.

However, if the money is spent on programs first, then the public will see climate change as one more budget item, floating in a sea of eroding social services. The State can still seize this prime opportunity to create a revenue-neutral program that reimburses the public for their share of revenues from the Commons. At the same time, it would create a new psychological, economic, justice framework for understanding that the solution to climate change is a carbon price that rewards the people of California. The Investment Plan can provide a template for national and international climate policy by providing equal dividends or shares to all Californians.

Although rebates are part of the adopted policy for the electricity sector, additional costs will be passed to consumers as additional sectors come under AB32. Electricity sector rebates will not compensate consumers for costs from transportation, and indirect costs from other goods and services that are passed through as energy costs rise. When the transportation sector enters the program in 2015, consumers will see a very visible hit to their pocketbooks. The best way to defuse a potential political backlash is to include a dividend for transportation sector and indirect costs in the Investment Plan.

Spending billions of dollars of revenues on infrastructure projects that offer long-term emission reductions but short term costs to taxpayers is a risky political gamble that could jeopardize the entire AB32 effort.

AB1532 Considerations

While dividends are not specifically named in AB1532 (Perez), the bill says that the Air Pollution Control Fund expenditures "may include" the categories named "but are not limited to" them, so dividends are still a viable option.[1]

[1] http://www.leginfo.ca.gov/pub/11-12/bill/asm/ab_1501-1550/ab_1532_bill_20120930_chaptered.html

The State could fund research into dividend distribution and the potential for resulting behavioral change. For example, the State could fund an effort to determine how the California Public Utilities Commission can best accomplish its stated goal of moving from on-bill dividends toward off-bill dividends.[2] The State could pilot a debit card system, or work with existing debit card programs to assess how dividends could be best delivered at low cost to recipients. This may also include incorporating dividends from a future national carbon price or from other "feebate" programs.

Political Backlash If No Dividends

In 2009-10, Congress came close but ultimately failed to pass a climate bill. An in-depth analysis[3] places blame on proponents' insider game that failed to align stakeholders and failed to counter opponents who blasted the bill for foisting more costs onto citizens and businesses.

Excerpts of the analysis by Skocpol, author:

> *The cap and dividend approach makes it possible to speak with average citizens about what they might gain as well as pay during the transitional period of increasing prices for energy from carbon sources. Cap and dividend is simple to spell out and it is also relatively transparent. Citizens could understand and trust this policy. Like Social Security, taxes or proceeds from auctions are collected for a separate trust fund – and the revenues are used to pay for broadly valued benefits for each citizen and every family. No opaque, messy, corrupt insider deals. The dividend payments also deliver a relatively greater economic pay-off to the least-well off individuals and families, precisely the people who, as energy prices rise, would have to spend more of their incomes as home heating, electricity, and gasoline.*
>
> *Popularly rooted organizations like labor unions, churches, and old people's associations might rally behind such an approach, because it is economically just in its impact. Indeed, for some years after it started, a cap and dividend system would reduce the expanding income inequalities that have plagued American society and politics in recent decades. Environmentalism has a reputation for appealing mostly to white, upper-middle-class educated citizens, even as stagnating wages for less privileged Americans have made it easy for right-wing forces to demonize carbon-capping as a new tax that will burden already hard-pressed families. Cap and dividend would allow antiglobal warming advocates to say – loud and clear, and very truthfully – that promoting cleaner energy will also boost the economic fortunes of average Americans. Reformers who want to remake energy use in the United States need to deliver concrete economic help to ordinary families along the way, and ideally they should do it in easy-to-understand, transparent ways. (pgs. 125-126)*

It may be tempting to ignore Skocpol's political warnings given California's current Democratic majority in the legislature. However, a program that spends most if not all funds on new government programs with few dividends may be quite vulnerable, especially if political winds shift.

The withdrawal of New Jersey from the Regional Greenhouse Gas Initiative (RGGI) is a cautionary tale for what could happen if allowance value is used for well-intentioned efficiency programs that are invisible to most consumers. Funds that were supposed to be set aside for energy and environmental uses were raided to plug state budget deficits. Because consumers did not see a direct connection to the use of

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[2] http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M040/K631/40631611.PDF (see pages 122-123)

[3] http://www.scholarsstrategynetwork.org/sites/default/files/skocpol_captrade_report_january_2013_0.pdf

revenues, the lack of consumer support failed to prevent New Jersey's Governor from withdrawing his state from the program. A per capita dividend could help California avoid this fate.

Dividends are beginning to take a larger role in the national climate debate. A recent bill announced by Senators Barbara Boxer (D-CA) and Senator Bernie Sanders (I-VT) would impose an upstream fee on carbon emissions, with three-fifths of revenues refunded to residents as a Family Clean Energy Rebate.[4] Republican Senator Susan Collins (R-ME) co-sponsored a bill called the CLEAR Act with Senator Maria Cantwell (D-WA) in 2009 that would have returned 75 percent of revenues to consumers as a dividend.

Climate change is a multi-decade, multi-generational challenge. Rather than spending revenues on projects that attract support from only one party, California needs a bi-partisan approach that attracts public support from non-environmental constituencies.

Investments

Challenges
As noted in the Draft Concept Paper, "One of the planning challenges is drafting an investment plan when the amount of auction proceeds to the State each year is unknown." RGGI recently reduced its number of auctioned permits by 45 percent.[5] The European Trading System (ETS) is proposing to withhold 1.4 billion permits due to an oversupply.[6] Such ongoing fluctuations of supply and demand in a tradable permit system make it an inappropriate source of funding for long-term large-scale projects.

Multi-billion dollar infrastructure projects such as high-speed rail are problematic investments because they could easily swallow up all the revenues from cap and trade, yet still be unable to contribute significantly to the state's GHG reduction goals by 2020. Investing solely in such projects will not broaden bipartisan public support for a continuously increasing price on carbon. Big projects will not counter the attack that a carbon price is a regressive tax.

Panelists at the May 24, 2012, ARB workshop on this topic expressed support for a long list of programs. Suggestions often conflicted as one speaker recommended focusing on "shovel ready" programs and the next on long-term research and development. The extensive laundry list of pet projects is a result of the perception that this is "free money" which can substitute for needs being de-funded by budget cuts.

Once politicians see revenues being spent, it will be tempting to borrow from those funds. What looks like free money to legislators will be a visible target for opponents to make the entire AB32 program vulnerable to an anti-tax backlash. High-speed rail is the most egregious of these, because the anticipated boondoggle attack would be tough to fight during the years or decades until it is fully operational.

Better sources of funding for investments in renewables and efficiency, exist including shifting fossil fuel subsidies or existing subsidies for activities that cause emissions. The transportation sector in California invests millions of dollars in policies and programs that increase fossil fuel use and GHGs, for example, parking structures, new highway lanes and widening roads. Such funds could go toward investments described in the Concept Paper, reserving auction proceeds for per capita dividends.

[4] http://www.sanders.senate.gov/imo/media/doc/0121413-ClimateProtectionAct.pdf
[5] http://www.bloomberg.com/news/2013-02-07/u-s-northeast-cap-and-trade-program-reduces-emissions-limit-45-.html
[6] http://www.reuters.com/article/2011/12/20/us-eu-carbon-idUSTRE7BH0DZ20111220

When choosing among these options, questions ARB should ask are:

- Are these investments already being made by other funding sources?
- Can investment opportunities be evaluated and selected using the amount of GHG reduction per dollar spent as a criterion? (We recommend that they are.)
- How will ARB's choices impact the potential renewal of the Public Good Charge that the Legislature let expire?
- How do these public funds relate to private sector investment for research or product development (i.e. Silicon Valley venture capital)?
- Will these funds choose technology winners and losers, or dissuade private firms from investing in R&D?

Positive Investment Opportunities
Using 25% for investment as the EAAC recommended, we offer the following to be prioritized.

1. Financing programs that leverage private capital. We distinguish financing from funding: Financing is a sustainable structure that enables access to funds currently spent on fossil fuels to efficiency and renewables; funding is a one-time allotment given by an external source for a program. Three financing programs that we have or are working on Sonoma County are:
   - PACE – Property Assessed Clean Energy
   - Pay As You Save - Using water bills to finance energy and water efficiency projects.
   - Community Choice Aggregation –The most powerful measure under local control for reducing GHG emissions. <u>One of the big first things we need is a state revolving loan fund to help communities launch local CCA programs.</u>
2. Offering access to funds for non-profits like ours. Often funding opportunities exist for which non-profit organizations are ineligible despite a proven track record of development and implementation of innovative, effective solutions. Although our organization has largely driven Sonoma County climate protection activities and innovations since 2001, we often have to plead with local governments to apply for funds because only they are eligible.
3. Investment in innovation, research, and competitive grants for bold ventures. Transportation solutions are especially challenging. <u>We strongly recommend investing in developing solutions that use pricing, one of the most effective measures to impact mobility choices.</u> Other exemplary transportation programs that we are implementing in Sonoma County are:
   - ECO$_2$school - A high school service learning program that enables students to reduce the GHG emissions associated with the student commute. Participating schools have seen as much as a 21 percent GHG reduction.
   - WeGo Ridesharing – A program that matches and incentivizes ridesharing using smartphone technology. We see a great opportunity for effective, local Transportation Demand Management programs that currently lack funding.

Please feel free to contact me about our comments or projects.

Sincerely,

Ann Hancock

Ann Hancock, Executive Director, Climate Protection Campaign