AB 32 Implementation Group

Working Toward Greenhouse Gas Emission Reductions
And Enhancing California's Competitiveness

TO: California Air Resources Board

FROM: AB 32 Implementation Group

SUBJECT: Comments on Cap-and-Trade Amendments Workshop July 18, 2013

DATE: August 2, 2013

The AB 32 Implementation group is comprised of industry and taxpayer organizations advocating for policies to reach AB 32 emission reduction goals in a cost-effective manner to protect jobs and the economy.

INDUSTRY ASSISTANCE

The AB 32 Implementation Group (AB 32 IG) wholeheartedly supports the California Air Resources Board (CARB) proposal to shift the "industry assistance factor" change by one compliance period of the cap-and-trade program. This will protect many California industries from the uncertainty of allowance availability and auction pricing through this critical recovery period in California's economy and still keep California on track to meet AB 32 emission reduction goals.

We urge CARB to seriously consider making the current assistance factor the default assistance factor for the entire cap-and-trade program. The original plan is too costly and too uncertain for California industry. In fact, we believe that any withholding of allowances aimed solely at forcing companies to reduce emissions without requiring that such reductions be both cost-effective and technologically feasible is a violation of AB 32.

The cap-and-trade program imposes a statewide limit for greenhouse gas emissions and directly regulates large sources in three compliance periods between 2013 and 2020. In the first period (2013 to 2014), every large manufacturer is receiving free allowances up to an established “benchmark” based on an average energy efficiency level for companies in the industry sector, less 10 percent.

Using these stringent benchmarks for free allowances is already putting significant cost pressure on all obligated entities, requiring most companies to buy additional allowances to cover emissions for their normal operations, even in the first compliance period.

Unlike CARB’s original plan which would have *further* reduced the volume of free allowances by 25 percent or more for some industry sectors, by extending the assistance factor, California’s most efficient companies will be able to continue operations without having to spend millions of dollars simply to maintain current production levels, and more importantly for the state, no jobs will be threatened.

The staff proposal is a sensible adjustment that protects both jobs and the fragile state economy: CARB proposes to delay this further reduction in free allowances until 2018, at the earliest, “…in order to provide additional certainty and time to industry to successfully transition to lower-carbon production methods. In addition, CARB is awaiting new research results that will improve the data, measurement, and metrics of economic leakage risk and will provide additional insights into the potential leakage risk posed by the long-term implementation of the Program on industrial sectors.”

NATURAL GAS

CARB should provide 100% transition assistance to natural gas suppliers and public utility gas corporations without requiring consignment: ARB proposes to provide natural gas suppliers an allowance allocation based upon their 2013 compliance obligation and the cap decline factor. However, as noted by staff, the public utility gas corporations will be required to consign a portion of their allowances to the auction. While 2013 and 2014 will be 100%, starting in 2015, utilities must consign 25% of the allowances increasing by 5% each subsequent year.

As detailed in the utilities presentation at the July 17, 2013 workshop, natural gas customers in California have already spent over $2 billion on energy efficiency programs aimed at reducing natural gas use and associated greenhouse gas (GHG) emissions. More importantly, California's gas utilities' efforts have resulted in significant improvements and major reductions in emissions, the direct result being that California's natural gas sector is already below its 1990 GHG emissions levels years before the 2020 deadline.

CARB's proposal fails to take into account non-cap-and-trade related costs that will result in significant increases in the cost of natural gas. The California Public Utilities Commission (CPUC) is engaged in ongoing proceedings concerning the implementation of the Pipeline Safety Enhancement Plan (PSEP). The CPUC decision will impact California industries subject to the cap-and-trade as the repair or replacement of transmission or distribution pipelines is expected to increase the cost of natural gas through increases in transportation rates for natural gas. Current estimates place potential cost increases between 14% to 60% in order to pay for the implementation of the PSEP. CARB should recognize such dynamic and burdensome costs will impose an extreme hardship on industrial gas users, threaten the economic recovery and put jobs at risk.

TRANSPORTATION FUELS

In the discussion draft staff, while proposing to amend the treatment of Natural Gas as to allowances, fails to address a needed change in the treatment of transportation fuels.

The current treatment of transportation fuels under the cap-and-trade program:

1. Is not consistent with the intent of the program -- that being to establish a consistent cost of carbon across all segments of the economy to ensure that the most cost-effective, technologically feasible carbon reductions are pursued to limit environmental and economic leakage that would undermine the program goals.

2. Creates an inequity in the treatment among fuels subject to the program.

It is critical that CARB consider and adopt an equitable program modification for all transportation fuels to ensure consistency under the cap-and-trade program and to recognize the cost pressures on all fuel types under the various GHG emission reduction programs.

CONCLUSION

We remain on track to meet AB 32 goals: CARB notes that taking this action "does not change the program cap or its annual decline." We will remain on track to meet AB 32 emission reduction goals without threatening high wage jobs. It should be noted that this will remain the case if a proposal is made to adjust the industry assistance factor in the third and last compliance period as well.

Thank you for considering these comments. Should you have any questions, please contact Shelly Sullivan at (916) 858-8686.

cc: Richard Corey
Edie Chang
Steve Cliff
Virgil Welch