

July 13, 2010

Chairman Nichols and CARB Board Members:

On January 27, 2010, seventy state legislators, public health experts, labor leaders, businesses, and environmental groups, including many of the groups and individuals signed on below, wrote to you expressing our concerns with the 49% offset limit that had been proposed in CARB's Preliminary Draft Cap and Trade Regulation (November 2009). We requested that the offset limit be tightened to ensure that the cap and trade program fulfill its promise of maximizing emission reductions in the state's most heavily-polluting sectors: transportation fuels, electricity, and large industrial sources.

We are dismayed to see CARB moving in exactly the opposite direction, proposing on June 22 to increase the offset limit from 49% to 100% of emissions reductions achieved by the package of AB 32 policies if certain allowance price triggers are reached.

We cite CARB's own words from the 2008 Scoping Plan to explain why this new proposal for virtually unlimited offsets is a bad idea:

“While some offsets provide benefits, allowing unlimited offsets would reduce the amount of reductions of greenhouse gas emissions occurring within the sectors covered by the cap and trade program. This could reduce the local economic, environmental, and public health co-benefits and delay the transition to low-carbon energy systems within the capped sectors that will be necessary to meet our long-term climate goals.” (p. 37)

We realize that CARB is attempting to design the AB 32 cap and trade program in a way that ensures that consumers and businesses will not be exposed to unacceptably high energy prices, and that CARB views offsets as a potential tool to contain the cost of the allowances that will be used by regulated entities to comply with the cap. If the capped entities' demand for allowances pushes prices too high, CARB proposes adding more offsets from outside the capped sectors into the system, in essence raising the emissions cap within the state, to relax demand for allowances and thus lower the price.

However, CARB must ensure that mechanisms for containing costs do not risk the environmental integrity of the program or eliminate a significant proportion of the potential public health co-benefits through an over-reliance on offsets. CARB has already adopted or is considering the potential effectiveness of a number of policies, such as a well-crafted reserve pool of allowances, unlimited banking, 3-year compliance periods, directed use of allowance value, and complimentary policies such as state energy efficiency and building code standards, clean car standards, and local land-use planning are effective ways of containing costs.

In addition, mitigating high allowance costs should not be CARB's primary objective. The cap and trade program is meant to create a stable, long-term price signal that promotes sustained investment in development and deployment of clean technology and infrastructure. The program should establish a minimum price on global warming

pollution that encourages a move away from dirty fuels, spurring investments in the state and reducing air pollution for Californians. **We urge you to protect the integrity of the program by tightening the offset limit, as stated in our January 27 letter.** However, if CARB ultimately chooses to allow the offset limit to rise above 49% at high allowance prices, CARB must also lower the offset limit when allowances prices are low. For example, no offsets should be allowed when allowances prices are under \$10/ton. At this price, polluting entities should be investing in cleaning up their own emissions here in California, allowing California residents to benefits from the green jobs, cleaner air, and technological innovation that accompany these investments.

Thank you,

Assembly Member Dave Jones

Assembly Member Tom Torlakson

African American Environmentalist Association  
Norris McDonald

American Lung Association in California  
Bonnie Holmes-Gen

Breathe California  
Andy Katz

California Apollo Alliance  
Lisa Hoyos

California Interfaith Power and Light  
Susan Stephenson

California Rural Legal Aid Foundation  
Martha Guzman Aceves

Catholic Charities, Diocese of Stockton  
Betsy Reifsnider

Center for Environment, Commerce & Energy  
Norris McDonald

Clean Air Now  
James J. Provenzano

Coalition for Clean Air  
Shankar Prasad

Engineers and Scientists of California, Local 20, IFPTE, AFL-CIO & CLC  
Joshua Sperry

Ella Baker Center  
Evelyn Rangel-Medina

Friends of the Earth-United States  
Michelle Chan

Global Green USA  
Mary Luevano

International Rivers  
Patrick McCully

Lutheran Office of Public Policy - California  
Mark Carlson

Natural Resources Defense Council  
Kristin Grenfell Eberhard

Margaret Henke  
The Orange County Interfaith Coalition for the Environment

Public Health Institute  
Matthew Marsom

Public Health Law & Policy  
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Sierra Club California  
Bill Magavern

Solar Millennium  
Rachel McMahan

Solaria  
David Hochschild

Sollega  
John Humphrey

Suntech America, Inc.  
Polly Shaw

Sustainable Energy Partners  
John Humphrey

Union of Concerned Scientists  
Erin Rogers

Vote Solar  
Adam Browning