January 11, 2010

Lucille Van Ommering
California Air Resources Board
1001 I Street
Sacramento, CA 95812

RE: Preliminary Draft Regulation for a California Cap-and-Trade Program

Dear Ms. Ommering;

The California Trucking Association (CTA) is a non-profit trade organization representing 3600+ trucking companies operating inside and out of California. Although the implementation of the California Cap and Trade program remains in its preliminary stages (especially with regards to caps on broad source fuels) we have identified several issues for your consideration, as explained in detail below.

1. The lack of a demand sector specific economic analysis makes it difficult to offer substantive comments.
2. Imposing a cap on transportation fuel will increase prices.
3. Transportation fuel use for the trucking industry fuel is not a matter of "choice".
4. A cap on transportation fuels could come to represent a de facto supply limit.

The CTA fully supports comments submitted by the American Trucking Associations (ATA) and hopes that staff will seek a deeper understanding of the trucking industry and the subsequent measures being taken by industry to reduce GHG emissions.

CTA also supports ATA's position for the removal of Transportation Fuels from any Cap-and-Trade program developed in California. The concerns outlined in their letter along with the concerns outlined below should be reason enough for staff to reevaluate the role of transportation fuels in the program and at a minimum investigate sector specific solutions to alleviate all concerns prior to full removal.

1. **The lack of a demand sector specific economic analysis makes it difficult to offer substantive comments.**

To date, estimates for demand sector specific price signals and how draft design elements are expected to affect end-user pricing have not been released. While the third party analysis "Modeling GHG Emission Reduction Policies in Support of AB32" done by Glen Wood and Jeff Amlin did provide a theoretical range for overall allowance pricing based on seven possible design-outcome scenarios, expected price signals by demand sectors were not modeled. In fact, the allowance price assumptions were in part based on modeling of price response dynamics, but no figures were presented to correlate the published allowance price ranges.

At the November 16, 2009 "AB 32 Economic Analysis" workshop, staff announced that the effect the Preliminary Draft Regulation is expected to have by demand sector will not be part of its economic study, but rather that staff will concentrate on possible macro-economic impacts. And furthermore, it appears the designers of Energy 2020 envisioned a possible model for residential auto fuel usage, but not commercial diesel.

We believe the above analytic limitation is unacceptable, given the following:

- Budget response – Higher fuel prices will not elicit a budget response which has not already occurred given that fuel was the number one operating cost for motor carriers in 2008. This, along with the numerous other recessionary pressures facing the goods movement industry (reduced freight volume, demand for lower rates from customers, contraction from earlier capacity peaks, etc), has already created incentive for motor carriers to explore fuel reduction and switching feasibility
- Efficiency/Capital Cost – The basic assumption that consumers are choosing between increased efficiency and capital cost does not hold true for commercial users of diesel. In fact, motor carriers are actually facing a 2-6% loss in fuel efficiency from diesel particulate filters mandated by other CARB regulations, such as the Statewide Truck and Bus Rule. And while 53-foot trailers and the tractors which pull them will begin to be statutorily required to be SmartWay certified in 2010, no such efficiency options will exist for local haul type applications. The efficiency-capital cost paradigm is simply non-applicable in the commercial diesel demand sector.

2. **Imposing a cap on transportation fuel will increase prices.**

In January 2007 an economic impact study was released by the Energy Information Administration (EIA) at the request of the United States Senate titled *Energy Market and Economic Impacts of a Proposal to Reduce Greenhouse Gas Intensity with a Cap and Trade System.* With regards to the capping of emissions related to transportation fuels, the study stated the following:

> *First, efforts to reduce GHG emissions and the requirement to hold permits for all remaining GHG emissions will raise energy prices, particularly those for fossil fuels. Second, the auctioning of permits and the sale of additional permits if the safety valve is*

triggered will increase revenues to the government. In turn, higher energy prices and increased government revenues will impact aggregate economic growth.

This analysis is further echoed by comments submitted re: *Design Questions for Stakeholder Review & Comment* by The Sightline Institute to the Western Climate Initiative:

> *In some ways, a fully upstream point of regulation fossil flues* (sp?) *would function very much like an economy-wide tax on carbon emissions, in that the system would send consistent price signals for emissions reductions throughout all sectors of the economy. Unlike a tax, however, an upstream cap would continually readjust the price of emissions to ensure that the price signal would genuinely achieve the WCI's emissions targets...*

In other words, increased energy prices are not an unfortunate byproduct of capping fossil fuel emissions, but are in fact its primary feature.

3. Transportation fuel use for the trucking industry is not a matter of "choice".

Transportation fuel and especially diesel fuel is the lifeblood of the transportation industry. Trucks haul nearly every single consumer good in California. Almost three quarters of communities in the Golden State rely exclusively on trucks for delivery of essential goods and services. Diesel fuel consumption for the trucking industry in California is not a choice, but a by-product in the distribution of these necessities.

Although it is assumed that the industry may just "pass on" the costs associated with emissions upgrades or higher fuel costs, the reality is that many companies face heavy resistance from customers when attempting to recover higher operating costs. A one-cent increase in the average price of diesel costs the industry an additional $390 million in fuel expenses nationwide. This explains why many trucking companies are reporting that as fuel prices increase, profits are greatly suppressed, if they are making a profit at all. These suppressed profit margins are an indication of the intense competition trucking companies face; forcing many to operate on razor thin margins of 1 – 4 percent. This constricts the ability of companies to supplement benefits, offer pay increases, increase staffing or purchase new, cleaner, compliant equipment.

Currently, the trucking industry in California is facing the cost of complying with several major Air Resources Board regulations: TRU ATCM, the Drayage Truck Rule, the Statewide Truck and Bus Rule, Heavy Duty Vehicle Greenhouse Gas Emission Reduction Measure, Heavy Duty Idling Reduction Measure, Off-Road Equipment (in-use) Control Measure, Off-Road Large Spark Ignition Control Measure, et. al. In total these regulations will exact a significant financial toll on the trucking industry in California. Adding the cost of Carbon allowances to the price of diesel fuel will further increase the price of diesel fuel sold in California, which already trends higher than the national average. These added costs will further encourage the leakage of fuel purchases to surrounding states.

Fuel costs regularly poll as a top industry concern. From 2005-2008, the price of fuel placed no lower than third in the American Transportation Research Institute's (ATRI) *Top Industry Issues Survey*. As stated in the survey, "Though motor carriers in 2008 aggressively sought to recoup fuel cost increases with fuel surcharges, the industry simply could not keep pace with the unprecedented rise in diesel fuel costs, topping $4.70 a gallon in July 2008…The year 2008 was also significant in that fuel replaced labor costs as the top operating expense for most carriers."

Market signals have long encouraged our industry to seek reductions in fuel consumption. Some of the fuel saving methods and technologies employed by the trucking industry include:

- Route optimization software
- Idling reduction technology including Auxiliary Power Units and Automatic Shutoffs
- Aerodynamic retrofit kits
- Low-roll resistance tires
- Speed limiters
- Voluntary participation in the EPA's SmartWay Program

Despite taking these pro-active, non-regulatory steps to conserve fuel, the goods movement industry remains vulnerable to diesel price fluctuations. The idea that further price increases from a potential upstream cap would result in reduced consumptive behavior from commercial motor carriers is a terribly misguided assumption.

In theory, increased prices, passed from the upstream producers to downstream "end user" would send market signals which would influence consumptive behavior. It is of note that non-commercial consumption of fossil fuels is the example most often cited as to how this market signal would function. For instance:

> *Upstream gasoline refinery increases price of gasoline due to cost associated with meeting cap (purchasing of allowances, offsets, green technology capital investment, etc.) Downstream end user is family of four with two vehicles. Family of four offsets increased cost of gasoline by eliminating certain unnecessary car trips and upgrades to more fuel efficient vehicle. Due to reduced consumption levels, higher price of gasoline is largely absorbed by family.*

The family in the above example's consumption is altered because a market factor (price of fuel) influences behavior. However, from the concerns above it is obvious that commercial motor carriers find themselves in a more complex financial situation.

4. **A cap on transportation fuels could come to represent a de facto supply limit.**

The following scenario, as posed in August 2008 comments submitted to the Western Climate Initiative by Exxon Mobil, is especially troubling (emphasis ours):

> *Considering the relative sizes of the transportation and industrial sectors, a scenario could easily develop in which insufficient emissions reduction from the transportation sector overwhelms the ability of the industrial sector to generate GHG emissions reductions, and* ***the supply of transportation fuels would have to be limited to hold GHG emissions under the cap.***

We hope that it goes without saying that the above, when applied to transportation fuels, would represent an unmitigated disaster for both our industry and the economy at large.

Given the relative inelasticity of commercial diesel demand, we fail to recognize how further reductions can be achieved through any other means than attrition, with companies simply being priced out of existence.

For the reasons cited above it is imperative that transportation fuels not be included in any Cap-and-Trade program in California.

We appreciate the opportunity to offer our concerns and perspective. We believe that staff must improve their understanding of how inclusion of transportation fuels in a Cap and Trade program would impact a very vulnerable trucking industry. Staff should be directed to reevaluate the role of transportation fuels in the program and at a minimum investigate sector specific solutions to mitigate significant concerns prior to issuance of the draft regulations.

Thank you in advance for your positive consideration. Please feel free to contact Matt Schrap, Director, and Environmental Affairs at 916-717-7396 or mschrap@caltrux.org for more information.

Sincerely,

Eric Sauer
Vice President
Policy Development
California Trucking Association