BIG VISION, BOLD ACTION

The mission of the Climate Protection Campaign is to create a positive future for our children and all life by inspiring action in response to the climate crisis. We advance practical, science-based solutions for significant greenhouse gas reductions.

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January 11, 2010

To: ARB

Re: Comment on Preliminary Draft Rule on Cap and Trade

Please accept the following comments on the Preliminary Draft Rule on Cap and Trade on behalf of the Climate Protection Campaign. We appreciate CARB's leadership in implementing AB32 to reduce our state's greenhouse gas emissions.

The Climate Protection Campaign’s previous comments to the ARB advocated for:

1) An upstream system
2) 100% auction of permits
3) Compensating consumers on a per capita basis - "Cap and Dividend"
4) A price floor on allowances (possibly accomplished through a carbon fee)

Additionally, we urge you to:

5) Include transportation fuels from the start of the program in 2012, and
6) Limit offsets.

Auctioning 100%

Auctioning 100% of permits is the easiest allocation method to administer, and when coupled with consumer dividends is the method most likely to accomplish the goals of AB32 with the fairest outcomes. Under a 100% auction of permits, purchasers will have an incentive to conduct detailed and accurate emission inventories, and have no incentive to inflate their baselines.

Auctioning 100% automatically rewards early action. Companies that have reduced emissions would need fewer permits. In an upstream auctioned system, the price signal automatically rewards downstream companies that have reduced their need for fuel and electricity. Auctioning is the fairest and least discriminatory approach.

Auctioning 100% from the start discourages lobbying and gaming behavior, because it sends a signal that everyone will be on a level playing field, with no special favors or exemptions to be gained through lobbying or political maneuvering. Free allowances to established companies discriminates against new market entrants, especially renewable energy providers.

A giveaway of even 1% of allowances to companies or utilities necessitates the creation of an additional set of bureaucratic procedures, which will be phased out as the auction takes over. This extra administrative burden would use important CARB staff, time, and resources, which would be better used to implement rules resulting in emission reductions.

The Economic and Allocation Advisory Committee (EAAC) Jan 10th draft report is correct in avoiding giving free allowances to utilities (LDCs). The draft report correctly acknowledges the disadvantages of CPUC/CEC Joint Decision Recommendation of using LDCs as the vehicle to assist consumers through a line item rebate on utility bills (pg. 41), and rightly notes that a superior approach would be returning dividends to consumers without using LDCs as middlemen. The CPUC/CEC did not consider consumer dividends in its analysis, and was concerned with only the electricity sector. We urge the ARB to avoid the strategy taken by Congress' Waxman-Markey bill, where the allowances are given to intermediaries such as utilities *on behalf of households,* and instead use the Cap & Dividend model found in the U.S. Senate's Cantwell-Collins CLEAR Act, which provides dividends directly to the public.

Dividends to the public

The rationale for distributing allowance value as equal cash dividends to the public is preserving the equitable ownership of the environmental commons. Dividends protect citizens from higher energy prices. They sustain consumer purchasing power, and most importantly, they create and help maintain political support for a carbon cap over time.

The Economic and Allocation Advisory Committee (EAAC) report notes the benefits of dividends, including:

- preserves public ownership of a common asset - the air we breathe - which we all share equally
- returns the bulk of allowance value to households, helping low-income people who can least afford increases in energy and fuel prices
- simple, transparent, and equitable

The EAAC estimates that even if only 60% of allowance value were returned as dividends, then 54% of households would avoid cost impacts of higher fuel and electricity costs resulting from AB32 (Jan. 10 EAAC draft report, pg. 57). It is important to provide net benefits to a majority of Californians in order to ensure continued support for AB32.

The EAAC recommends that "the largest share (roughly 75%) of allowance value should be returned to California households" (pg. 69). The report states that "roughly 75% of this value should be returned to households either through lump-sum payments…" and "roughly 25% of this value should be devoted to financing investments and other public expenditure…" (pg. 68).

According to figures taken from the EAAC January 10th Report, if 75% of total allowance value were returned to Californians, a family of four would receive an annual dividend of $388 in 2012, rising to $1,036 in 2020, adding a total of $7,004 to family incomes over the 8 year program.

As a method to return allowance value to Californians, dividends are far superior to income tax cuts. Tax cuts disproportionately benefit the wealthy, the tax code is opaque, and they are unlikely to generate political support or behavior change. Climate dividends are transparent and progressive. Monthly or quarterly dividends checks provide a great way to communicate the various cost effective GHG reductions activities that are available to consumers every month.

Dividends are also being considered at the national level. On December 11, 2009, Senators Maria Cantwell (D-WA) and Susan Collins (R-ME) introduced the Carbon Limits and Energy for American Renewal (CLEAR) Act. The CLEAR Act is based on Cap & Dividend, auctioning permits to fuel producers and returning 75% of the resulting revenue in checks to every American on a monthly basis through the Federal government's Electronic Funds Transfer system. Cap & Dividend in California could facilitate future linkages to the WCI and nationally, and could also form the basis of a future international system based on per capita emissions.

Although we support 100% dividends, we recognize that the EAAC and the CLEAR Act support 75% dividends, with the remaining 25% supporting public trust expenditures such as a Community Benefits Fund, low-carbon technology research and development, public transit, weatherization, green jobs programs, or energy efficiency. If dividends were taxable, they would generate hundreds of millions of dollars to state and local governments for such investments. Such investments may also be funded with other sources of revenue including carbon fees and diverting subsidies away from the fossil fuel industry.

Dividends allow for an alternative political strategy for support for AB32. Rather than deny costs and buy support from lobbyists through giveaways and offsets (Waxman-Markey), ARB can acknowledge some costs to consumers, but then to explicitly return rents back to the people through dividends. This approach may defuse the opposition to a carbon price. Recently a 2010 gubernatorial candidate stated that if elected she would immediately place a moratorium on AB32 in the name of economic growth, and a legislator is pushing an initiative to suspend the bill. Dividends may be a powerful tool in allaying fears people have of additional economic costs and the potential for backlash.

Limit offsets

Offsets should be limited as a percent of the program, and also limited by geography to prevent “hot spots.” Offsets can allow reductions in sectors not covered by the cap to have a market value, but should not substitute for permits. Additionality has been problematic in current offset programs. Also, forward accounting is problematic (counting 20 years of reductions in advance all at once), and the forestry sector has issues (since scientists predict increased wildfire in the West, what happens if all those carbon offsets go up in smoke).

California’s Market Advisory Committee suggested that performance standards for offsets are necessary. We do not feel that Clean Development Mechanism (CDM) credits are acceptable for California or the WCI. The CDM lacks the necessary accountability, and there are horror stories about Chinese factories selling millions of dollars of CDM credits and using proceeds to fund coal fired power plants. All offsets, especially out-of-state offsets, should be limited. Other options include restricting offsets in the voluntary market, disallowing the use of offsets as a substitute for mandatory allowances.

Price floor for permits

We have encouraged a price floor reserve price for allowances as a design element for a Cap and Auction system. It can be implemented through a carbon fee that rises over time. This reduces low-end price volatility, and can help companies justify long term capital investments in low-carbon technologies.

Sincerely,

Mike Sandler
Program Manager