



# AB 32 Implementation Group



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

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Cap-and-Trade Program Development Team  
California Air Resources Board  
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***Submitted electronically:***

The AB 32 Implementation Group, a coalition of more than 185 employer, consumer and taxpayer organizations, appreciates the opportunity to comment on the proposed draft regulation (PDR) for the cap-and-trade program. AB 32 Implementation Group (AB 32 IG) has long advocated for a well-designed, cost-effective and technologically feasible cap-and-trade program.

Understanding the Economic Allocation and Advisory Committee's (EAAC) 'Allocating Emissions Allowances Under California's Cap-and-Trade Program' will play a large role in continued efforts in refining the cap-and-trade PDR we believe prior comments from the AB 32 IG to EAAC will be useful and relevant to your future design workshops.

While the AB 32 IG comments to EAAC are accompanying this letter for your consideration, here are some issue areas that we believe deserve further examination.

**Economic Analysis:** It is critical that in order to implement such a program a sound economic analysis should guide decision-making about the program elements.

**Cap-and-Trade – Auction of Allowances:** The recommendation that CARB rely principally on an auction of allowances is of great concern. Depending on CO2 prices, many billions of dollars will be paid by large industries over the timeframe of the program. The goal to use allowance value for cost-effective reductions, to compensate for leakage or achieve other AB 32 goals is commendable, but not likely to convince employers and investors to expand production and employment in the state.

**Maximize Offsets:** The cap-and-trade PDR regulation, recommends severely restricting the use of offsets to 4%. This limitation will significantly increase the cost of the cap-and-trade program. Moreover, it does not appear that CARB staff will be measuring the impact of this limitation because its economic analysis will model only offsets at zero and 4%. We strongly suggest that CARB recommend a far more robust analysis of the impact of offsets.

**Separation of the cap-and-trade program and environmental justice issues:** One of the difficult issues that CARB faces is how to design a market-based approach including cap-and-trade and offsets that would minimize costs while also addressing the environmental justice community's objective of reducing localized criteria pollutant emissions. After considerable review and consultation with experts such as Harvard economist Robert Stavins, we've arrived at the conclusion that trying to achieve these goals through a cap-

and-trade and offset program would lead to failure on all fronts. We offer a possible resolution in the October 2, 2009 letter to EAAC.

**AB 32 GHG Reduction Program-California Only:** A federal cap-and-trade bill that would include California is not likely to pass due to concerns about the economy and political pressures leading up to mid-term elections. Nearer to home, California is the only member state of the Western Climate Initiative to adopt an enforceable cap on its economy.

California is now developing a California-only GHG reduction program, including a cap-and-trade program. Economic risks for a California-only program are many beyond the leakage potential. The risks include a worsening of the overall business climate while the economy is still fragile and far from recovery from the recent recession.

These are just some of the issue areas we would like you to consider. The attached letters offer more detail for your review. If you have any questions, or need anything further, please feel free to contact us.

We look forward to working with you in the future on creating a cap-and-trade regulation that does not lead to more job loss and unnecessary costs for consumers.

Sincerely,



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