



June 21, 2012

The Honorable Mary Nichols
Chair, California Air Resources Board
1001 I Street
Sacramento, CA 95814

**SUBJECT: CALCHAMBER'S COMMENTS ON CARB'S CAP-AND-TRADE REVENUE
EXPENDITURE PUBLIC CONSULTATION**

Dear Chairwoman Nichols,

The California Chamber of Commerce appreciates the opportunity to comment on the California Air Resources Board's (CARB) Cap-and-Trade auction revenues investment plan following CARB's public consultation held on May 24, 2012.

The CalChamber is the largest broad-based business advocate in the state, representing the interests of over 13,000 California businesses, both large and small. Many of CalChamber's larger members will be directly covered by the cap-and-trade regulation, while many other smaller members will likely experience indirect impacts in the form of new costs passed down from upstream fuel and energy providers.

CalChamber strives to remain a constructive voice throughout the AB 32 implementation process in order to advance the greenhouse gas (GHG) emission reduction goals in a cost-effective manner while protecting California businesses and allowing for economic growth. CalChamber has long maintained that if designed appropriately, a market-based mechanism has the ability to garner significant GHG reductions in a cost-effective manner. CARB's decision to move forward with a multi-billion dollar revenue raising auction will jeopardize the competitiveness of California businesses. CARB's decision to arbitrarily withhold and sell (auction) allowances will raise billions of dollars at the expense of California businesses. This approach runs contrary to expressed goals of AB 32, which is that of maximizing benefits and minimizing leakage risks and costs.

As CalChamber has long held, CARB lacks authority to raise revenue via the auction of allowances. The inclusion of a 'market mechanism' in AB 32 was intended to allow consideration of market dynamics to find the most cost-effective emission reductions. The definition of 'market mechanism' alone does not grant revenue-raising authority and without such authority, the imposition of an auction is legally questionable. Given the legal uncertainties surrounding CARB's authority to impose an auction, an investment plan to expend the proceeds is premature.

An auction is not necessary for a successful cap-and-trade program. The cap-and-trade program will achieve targeted emission reductions without the revenue-raising of a state run auction. Historically, successful emission trading programs such as the Clean Air Acid Rain Program and the Lead Phasedown programs have relied on the free distribution of allowances. A system of free allocation has proven to promote cost-effective emission reductions while enabling entities to buy and sell allowances amongst themselves in the secondary market. CalChamber endorses a system of free allocation that is economically beneficial, promotes market liquidity and diversity, and decreases the risk of market speculation.

If California is to be a true leader in climate change policies, CARB must take immediate action to remove the cap-and-tax stigma associated with the current revenue raising program. A multi-billion dollar auction does not ensure the efficacy of the market nor does it achieve the GHG emission reduction goals of AB 32. Finally, we urge CARB to immediately conduct a leakage assessment and to adjust the program to account for the extraordinarily high leakage risk associated with program costs; November would be too late to analyze this information as CARB has planned.

An 'investment plan' provides for the unjustified use of revenue and goes beyond the economic and environmental harm that will arise from CARB's imposition of a cap and tax on state employers.

We appreciate your consideration and the opportunity to comment. We urge you to be mindful of the economic burden that is unnecessarily being imposed upon businesses. California can lead the way but only if CARB takes action to address the onerous aspects of the current cap-and-trade program.

Please feel free to contact me if you have any questions.

Sincerely,

Brenda Coleman
Policy Advocate