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# AB 32 Implementation Group

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

**DATE:** June 7, 2010

**TO:** CARB Cap-and-Trade Program Development Team

**FROM:** AB 32 Implementation Group

**RE:** **AB 32 IG Comments on Cap-and-Trade Proposal**

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The AB 32 Implementation Group is a coalition of business and taxpayers groups working for effective implementation of AB 32. Our goal has been and continues to be to serve as a constructive voice in the implementation of AB 32 and ensure that the greenhouse gas emission reductions required by the statute are achieved while maintaining the competitiveness of California businesses and protecting the interests of consumers and workers. While we offer more detailed comments below on the various aspects of the proposed cap-and-trade regulation, we must first express our support for the general direction outlined by staff at the May 17<sup>th</sup> public workshop. We are pleased to submit the following comments on the May 17<sup>th</sup> workshop on concepts for a cap-and-trade program:

## **Cost Containment/Leakage**

Over the last two years, the AB 32 Implementation Group has consistently urged that the Scoping Plan and the various AB 32 regulations incorporate cost containment mechanisms that may be necessary to ensure that businesses in California can remain competitive. We are encouraged by the presentation's focus on addressing cost containment and leakage concerns in the design of the cap-and-trade regulation. Avoiding leakage is also important to maintain the environmental integrity of the program.

## **Allocation of Allowances**

We appreciate the recommendation for a free allocation of allowances as an important cost containment element. This proposed direction reflects sensitivity to current economic problems and reflects one of the important recommendations made by Governor Schwarzenegger in his letter of March 24, 2010 to Chair Mary Nichols.

Staff has appropriately proposed limiting the use of an auction for allocating allowances in the early years of the program. Cost containment in the cap-and-trade program is critical to ensuring that businesses in California can remain competitive because California companies will be subject to new costs not borne by competitors in other states and countries. An immediate auction for 100% of allowances would impose very high and abrupt costs on the public agencies and companies subject to the program. We will have the same concerns in later compliance periods if California has not transitioned to a comprehensive national program and California companies remain at a competitive disadvantage.

Members of the AB 32 Implementation Group represent many companies across a variety of industry sectors and the circumstances for each sector and company differ. We appreciate that

CARB staff will be conducting in-depth analysis of covered entities as part of their effort to determine an appropriate system for allocating permits.

We believe CARB will find that California companies and other covered entities are much more energy efficient than competitors -- taking into account California specific resources, products, and manufacturing differences -- in other states and countries due to a decades-long history of high energy costs and aggressive energy efficiency programs in the state. This should be reflected in the establishment of an appropriate allocation strategy.

Therefore, we believe the allocation strategy needs to consider the investments and efficiencies already put in place by California companies compared to their global competitors. The allocation strategy should serve to reward or at least recognize those investments and efficiencies.

### **Offsets**

We look forward to future policy discussions with CARB staff to develop proposals to create a robust offsets market to help contain costs of the program as recommended in the Governor's letter. We should be sending strong signals now that offset projects will play a significant role in providing cost-effective emission reduction strategies to contain allowance costs for companies that want to keep jobs and expand in California. Allowing a broad use of offsets to contain costs will be very important as the total allowance budget (the cap) declines in the years leading up to 2020. It will be essential to any expansion as our economy grows.

### **Use of Allowance Value**

We agree that this first tier use of allowance value should be to protect industries vulnerable to leakage and to provide transition assistance to covered entities. As stated above, this will help achieve the emission targets of AB 32. It will also be important to ensure that use of allowance value in the second tier not exceed the authority of CARB under AB 32 or violate state laws regarding appropriate use of revenues.

### **Regulation Development Process**

CARB staff has a lot of work to do to meet the goal for rule development and adoption by the end of the year. We will provide whatever assistance we can to help you meet that goal and encourage our members to stay informed and provide information. However, companies may require assurances that sensitive information remains confidential.

To help us provide input during this process, we request that outlines and other materials be posted at least three days before workshops. This will help us coordinate participation and comments at the workshop, and will make written comments to you more useful.

We appreciate the opportunity to comment on the May 17<sup>th</sup> workshop and we look forward to a continued discussion as you proceed with future workshops.

cc: CARB Chair Mary Nichols  
CARB Board Members  
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