

STATE CAPITOL
P.O. BOX 942849
SACRAMENTO, CA 94249-0014
(916) 319-2014
FAX (916) 319-2114

DISTRICT OFFICE
ELIHU HARRIS STATE BUILDING
1515 CLAY STREET, SUITE 2201
OAKLAND, CA 94612
(510) 286-1400
FAX (510) 286-1406

Assembly California Legislature

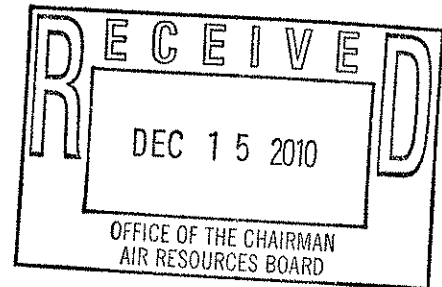


NANCY SKINNER
ASSEMBLYMEMBER, FOURTEENTH DISTRICT

COMMITTEES
CHAIR, RULES
APPROPRIATIONS
PUBLIC SAFETY
UTILITIES AND COMMERCE
SELECT COMMITTEE ON
RENEWABLE ENERGY

December 15, 2010

Chairman Mary Nichols
California Air Resources Board
1001 I Street
P.O. Box 2815
Sacramento, CA 95812



Dear Chairman Nichols,

I want to thank you and your staff for your diligent work in preparing a very well thought out proposal for establishing a cap-and-trade system in California. The architecture of the proposed system is certainly within the context of the legislative intent of AB32 and also addresses the economic realities we currently face. I write now to add my comments to the Board's deliberations.

I appreciate the establishment of a permit price floor that begins at \$10/ton. Such a floor helps stabilize the market, softens the potential impact of unexpected price drops, and may lessen some of the unintended consequences that could result from permit allocations.

I also strongly support the approach the Board has taken for the transportation sector, which allows for regulation at the point of fuel refining (upstream) and proposes auctioning for 100% of the permits.

However I do have concerns about some aspects of the proposal, especially relating to the allowances to the industrial sector and electric utilities.

I appreciate the desire to design a system that can protect against sudden or undue short-term economic impacts and "leakage" that might put California businesses and facilities at a disadvantage. Clearly, retaining industrial production within California has potential for greenhouse gas (GHG) emissions reductions, in and of itself. Moreover, the draft framework raises legitimate concerns about the additional costs from a cap-and-trade scheme on California's long-term economic prospects. Resolving these challenges are important goals, but might be achieved through mechanisms other than extensive free allocation of allowances, which was a key design flaw in the European Union (EU) emissions trading system. We must find the delicate balance between requiring the polluter to pay and the possible negative economic consequences of applying that principle.

Free allocation of allowances will not necessarily result, for example, in the State or other large procurement entities purchasing California-produced or manufactured goods. While allowances might



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RE: Proposed California Cap on Greenhouse Gas Emissions

help offset a possible competitive disadvantage California industries could experience from industries out of state, allowances don't compel large procurers in California to procure within the California marketplace. Incentivizing in-State production and in-State procurement might have two possible GHG emissions reduction advantages: the emissions reductions achieved by the regulated in-state industry and the emissions reduction that could result from the avoided out of state or international transport. A specific carbon adder based on distance travelled might be considered.

In the electricity sector, I am concerned about costs related to administering rebates or funds back to ratepayers and about the utilities' track record in rate reduction and equitable consumer benefit. In this time of budget deficits and economic stress a program design with the least cost to administer would be advisable. The Economic and Allocation Advisory Committee's March 25, 2010 recommendation, which suggests returning 75% of allowance value to California ratepayers, may provide an opportunity for lowest cost administration and overhead. It may be worth delaying adoption of this portion of the regulations until further examination of optimal means to reduce consumer economic impacts.

In closing, I want to thank you again for taking the time to craft a framework for California's pioneering cap-and-trade scheme. We share the commitment to reduce GHG emissions in a timely and economically robust fashion. My comments today are meant to be as constructive as possible, and at this time focus on only one or two (albeit crucial) portions of the cap-and-trade framework. I know that you and your staff have a difficult task ahead, and I look forward to working together to reach California's green future.

Sincerely,

A handwritten signature in black ink that reads "Nancy Skinner". The signature is written in a cursive, flowing style.

NANCY SKINNER

Assemblymember, 14th District