December 4, 2008

TO: California Air Resources Board Members and Staff

FROM: John Boesel, President and CEO

RE: Comments on Draft AB 32 Scoping Plan

CARB's Proposed AB 32 Scoping Plan (Proposed Plan) represents a good first step toward comprehensive climate policy in California. We generally support the plan and appreciate the work that CARB has undertaken to lay out a plan that addresses the challenge of significantly reducing greenhouse gas emissions from the business-as-usual scenario. Overall, we believe that the Proposed Plan is an improvement over the earlier draft and we applaud the inclusion a margin of safety to account for uncertainties. We offer the following suggestions and observations to further strengthen the plan and help California achieve its economic and environmental goals: (1) timely and effective implementation is crucial to the success of AB 32, (2) emissions allowances should be auctioned, (3) strategic investment in transportation can achieve multiple policy goals, (4) include transportation fuels at the outset of the cap and trade program, and (5) provide stronger targets and incentives for smart growth.

Timely and Effective Implementation is Crucial to the Success of AB 32

California's leadership on AB 32 has sent a strong message to both businesses and consumers regarding the state's determination to address the threats posed by climate change. It is vitally important that implementation of AB 32 and related regulations and programs proceed on schedule and without major modifications or backsliding on key provisions. Consistent, predictable, and ambitious climate policies are needed to drive behavior changes, investment, and innovation. Timely implementation takes on added importance in the face of low and volatile oil prices, as the market alone is increasingly insufficient as a tool to drive change and investment through price signals. Experience has shown that high oil prices can encourage significant activity around clean technologies, but the return of cheap oil can be expected to bring about a sharp drop in both investment in and demand for clean alternatives to conventional technologies. The current economic crisis further exacerbates the problem.

History provides a valuable lesson that is relevant to our current situation. The Zero Emissions Vehicle (ZEV) Program was intended to drive the development and deployment of zero emissions vehicles in California. The regulations initially led to a significant increase in investment in electric cars. However, delays and backtracking in the implementation of the regulations eventually acted as both a barrier to investment in the sector and a cautionary tale for investors who based their business plans on regulations that were later delayed or relaxed. We cannot afford to repeat these errors. California needs to stay on schedule and keep up the momentum on climate change.

Emissions Allowances Should be Auctioned

An auction of emissions allowances is the best way to distribute the allowances and meet the goals set out by AB 32. Auctions are the most economically efficient allowance allocation method. They also reward early action, help create a level playing field for new firms and technologies, and facilitate the smooth functioning of the carbon market by providing clear price signals. Furthermore, allowance auctions provide a significant and economically efficient source of revenues to be used for public benefit. Experiences in Europe, where free allocations led to volatile prices and windfall profits, provide real world support for the problems with free allocations.

The Proposed Plan acknowledges that “a transition to a 100 percent auction is a worthwhile goal for distributing allowances” (p. 36), but does not definitively address the issue. Support for allowance auctions is widespread, coming from state committees and regulatory bodies in addition to the academic and environmental communities. California’s Market Advisory Committee (MAC) recommended a transition to a full auction in its report. The Economic and Technology Advancement Advisory Committee (ETAAC) outlined the benefits of auctions from the standpoint of encouraging innovation, rewarding early action, and creating clear price signals. Furthermore, both the California Public Utilities Commission and the California Energy Commission have recommended a transition to a 100 percent auction for the electricity sector.

Strategic Investment in Transportation Can Achieve Multiple Policy Goals

Transportation is the largest source of GHG emissions in California, and there are a number of existing and emerging technologies that can significantly reduce these emissions. Though many of these technologies already exist, incentives and other forms of public support are needed to accelerate development and deployment. Targeted public investment in this area could generate substantial carbon reductions and help the state meet the goals set out by AB 32. Furthermore, clean transportation technologies and projects have many important environmental and economic co-benefits, including:

- Criteria pollutant reductions that benefit public health and the California economy.
- Environmental Justice benefits, particularly from projects affecting ports and heavily impacted areas such as the South Coast and San Joaquin Valley.
- Protection from the economic costs of petroleum dependence and oil price volatility
- Significant potential for “green jobs” in biofuels production, alternative vehicle and component manufacturing, and green jobs.

If California decides to auction emissions allowances and to use the revenues to further the goals of AB 32, we recommend a focus on transportation technologies.

Include Transportation Fuels at the Outset of the Cap and Trade Program

The successful implementation of AB32 will require significant reductions in emissions from the transportation sector. The Proposed Plan initially relies on the Low Carbon Fuels Standard (LCFS), the Pavley vehicle standards, and improvements in land use planning to address these emissions. Transportation fuels are not included in the cap and trade program until sometime after 2015. We recommend including transportation fuels at the outset for the following reasons:

A broader cap is preferable: the cap and trade system should include as many sectors of the economy as possible. Including transportation fuels at the outset would help preserve the integrity of the cap, lead to a more liquid market, increase the efficiency of the cap and trade system, and provide more stable long term price signals for investments in transportation fuels. It would also create a level playing field for all transportation energy providers. Delaying the inclusion of transportation fuels in the cap and trade program will reduce the effectiveness of the program in the early years.

There is no compelling reason for delay: including transportation fuels under the cap and trade system would be relatively straightforward and would not require the development of complicated new fuels or emissions tracking systems. The state already tracks transportation fuel consumption with a high degree of precision as part of the gasoline and diesel tax collection process. This preexisting administrative structure could facilitate tracking and compliance with a cap and trade.

Complementary Policies are Necessary but not Sufficient: The Proposed Plan contains a number of measures that are designed to reduce emissions from the transportation sector. However, none of the complementary policies addresses the market failure at the heart of the climate change problem: the fact that carbon emitters are not paying the full social cost of their consumption and emissions. The LCFS will deliver a reduction in the carbon intensity of transportation fuels. The Pavley standards, if implemented, will reduce GHG emissions on a per vehicle basis. While both of these are very important and helpful measures, neither can be counted on to bring about the emissions reductions necessary to achieve the 2020 or 2050 targets. Increases in vehicle fleet size and vehicle miles traveled could lead to an overall increase in carbon emissions even with a cleaner cars and fuels. Smart growth policies are another important piece of the puzzle, but smart growth alone will not yield sufficient carbon reductions, particularly with the relatively low targets set out in the Proposed Plan. A strong and declining cap on emissions from fuels is necessary to drive emissions reductions in the transportation sector, and any delay in implementing this cap will make the 2020 targets harder to achieve.

Provide Stronger Targets and Incentives for Smart Growth

We were pleased that Proposed Plan increased the land use and smart growth reduction target from 2MMT to 5MMT, but believe that this new target still underestimates the importance and potential of land use policies to reduce VMT and associate emissions in California. The recent signing of SB 375 (Steinberg) into law indicates that there is some consensus around this issue and this is a good time to act. CARB should set a target of at least 10 MMT to send a strong signal and get the state headed in the right direction. Large scale changes in land use patterns will require time, negotiation, and creativity. The state should convene a Blue Ribbon Commission including developers, environmentalists, and local government officials to come up with additional recommendations for supporting smart growth and transit-oriented developments.