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Mary Nichols
Chairwoman, California Air Resources Board
Sacramento, California
Cc: James Goldstene, Dan Sperling

Subject: AB32 Scoping Plan and Clean Air/Clean Transportation Incentive Program

Dear Chairwoman Nichols:

We appreciate the commendable efforts by the California Air Resources Board to develop an AB32 implementation plan demonstrating California's leadership in combating climate change. AB32 recognizes the need for economic incentives as an important tool for maximizing cost-effective GHG reductions (section 38561(b)) in addition to performance standards and a potential cap & trade program. We strongly recommend that you issue a final scoping plan that:

- Includes funding for a clean air/clean transportation incentive program as a high priority measure, as recommended by the Economic and Technology Advancement Advisory Committee (ETAAC) report (section 2.H.)
- Highlights the many AB32 objectives that will be met by investing the value of transportation sector greenhouse gas allowances (which the state will distribute under its proposed cap & trade program) in a clean air/clean transportation program.

Transportation is the largest source of GHG emissions in California. Incentive programs targeted at criteria pollutants have leveraged private and public investments to achieve cost-effectively reduce emissions in California for many years. While these incentive programs create some incidental GHG reductions, funded incentive programs targeted directly at GHG emissions could reduce millions of additional tons of GHG and co-pollutant emissions (see ICCT letter to the WCI, August 2008). Funding for both immediate and long-term opportunities could achieve emission reductions well beyond standards alone for cleaner vehicles, cleaner fuels, and reduced vehicle miles traveled. This incentives program would help meet AB32 goals for GHG reductions, while also bringing about improvements in air quality and protection of Environmental Justice areas and investment for communities including disadvantaged areas. (Sections 38501(h), 38562(b)(4), 38562(b)(2), and 38565))

The final scoping plan should note that GHG allowances distributed by California under cap & trade provide an opportunity to fund such incentive programs to help transportation end-users.

The total value of allowances that will be purchased or received for free by fuel producers and refiners in California would range from one to several billion dollars annually[1] (based on California Air Resources Board and Western Climate Initiative (WCI) price predictions). As the Director of the US Congressional Budget Office recently testified to the US House of Representatives Committee on Ways and Means, “price increases [based on GHG emissions] would stem from the restriction on emissions and would occur regardless of whether the government sold emission allowances or gave them away.” On the other hand, using the value of allowances to help residents and businesses transition to cleaner and more efficient transportation options would reduce fuel costs along with GHG and co-pollutants.

The final scoping plan should also note that the economic benefits of investing GHG allowances in a clean air/clean transportation fund will extend beyond transportation end-users. A Resources for the Future September 2008 report found that investing in efficiency lowers the overall cost of cap & trade nationally (while this report is not specific to California’s transportation sector, it is consistent with CARB findings that transportation efficiency is a major cost-savings opportunity in California). Supporting markets will also encourage continued Clean Tech investment in California, including investment by existing transportation fuel providers, to maximize the economic benefits of AB32 (section 38570(b)(3)).

Finally, we recommend that the final scoping plan note that a competing idea, using free allowances as a subsidy awarded based on past GHG emissions, would hinder the goals of AB32. It would create an unfair playing field that discourages cleaner and more efficient alternatives. In addition, the Director of the US Congressional Budget Office recently testified to the US House of Representatives Committee on Ways and Means that, “Giving away a large share of the allowances to companies that produce fossil fuels or energy-intensive goods could be more costly to the economy and more regressive than selling them.”

We at Cascade Sierra Solutions are working on the front lines with trucking companies and owner-operators to make efficient trucking accessible and affordable, but without strong incentives, it is very difficult for us to achieve our objectives of clean air and fuel conservation.

For all of these reasons, we recommend that the final scoping plan contain a clean air/clean transportation incentive program, funded by transportation sector GHG allowances under cap and trade. Thank you for the opportunity to comment on the proposed AB32 scoping plan.

Sincerely,

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[1] Oil production and refining is 49.2 mmtpy in 2002-2004 per CARB emissions inventory available on CARB website, and CARB is predicted a linear decrease in capped emissions from 2012 to 2020 - see the draft CARB GHG scoping plan and http://www.arb.ca.gov/cc/inventory/data/forecast.htm#summary_forescast. Projections based on WCI Table B-12 allowance price projects for a broad cap & trade with offsets.