



Air Resources Board



Mary D. Nichols, Chairman

1001 I Street • P.O. Box 2815
Sacramento, California 95812 • www.arb.ca.gov

Linda S. Adams

Secretary for
Environmental Protection

Arnold Schwarzenegger
Governor

March 17, 2010

The Honorable Bob Dutton
California State Senate
California State Capitol, Room 5094
Sacramento, California 95814

Dear Senator Dutton:

Thank you for your letter of March 1, 2010, expressing your concerns about the implementation of AB 32 and the status of our updated economic analysis. The Air Resources Board (ARB) staff will present an updated economic analysis of the Climate Change Scoping Plan and its assessment by an outside group of economic experts at our March 25, 2010, Board meeting. In addition, we will hold a public meeting in April that will allow interested parties to participate in a panel discussion of ARB's and other economic analyses of AB 32 implementation. I welcome your participation in that discussion and will share additional information as the details for the event are developed.

Your letter suggests that we are implementing the Scoping Plan without consideration of the potential economic impacts. I assure you that every regulation that comes to our Board has an analysis with it that considers the economic costs and benefits of that regulation. While the Scoping Plan provided the broad policy direction for achieving the goals that the Legislature and Governor set for California in AB 32, the implementation of the measures in the plan is being done through the State's formal rulemaking procedures, including working with all stakeholders during the development of the regulations and the analysis of the economic and environmental impacts. We have not and cannot adopt regulations to implement any of the measures in the Scoping Plan without a regulation-specific economic analysis.

Last May, California Environmental Protection Secretary Linda Adams and I appointed the Economic and Allocation Advisory Committee (EAAC) that is comprised of economic, financial, and policy experts with various backgrounds and experiences. Part of our direction to EAAC was to interact with and advise ARB's staff as the economic analysis was updated. Secretary Adams and I believe that such an

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For a list of simple ways you can reduce demand and cut your energy costs, see our website: <http://www.arb.ca.gov>.*

California Environmental Protection Agency

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interactive peer review process is the best way to ensure that the updated analysis is strong and robust. ARB staff has been working closely with EAAC since the committee was appointed.

As you note, the Board had requested the updated economic analysis of the Scoping Plan by December 31, 2009. However, last November, EAAC requested that its members and ARB staff be given more time to complete the work. EAAC's focus last summer and fall was on the other task that we had given them—providing recommendations to the Board on the distribution of allowances and use of potential auction revenue within the cap-and-trade program. At the EAAC meeting on November 18, 2009, Professor Larry Goulder, the chairman of EAAC, noted that the EAAC members had, at that point, focused almost exclusively on the allocation recommendations and had not yet found the time to focus on the updated economic analysis work that ARB staff had underway. He noted that while staff was on track to release an updated analysis in time for the December board meeting, he believed that it would be prudent for the Board to allow staff additional time to work with the EAAC members to produce a more robust analysis that reflected the input and recommendations of the economic experts on EAAC.

Finally, I would like to emphasize that the work that California is doing to implement AB 32 is helping point the way toward investing in a clean energy future for California. I firmly believe that California's investments in energy efficiency and alternative fuels will help maintain our long-term economic health by reducing our susceptibility to volatile oil and natural gas prices. As we look for ways to move out of the current economic downturn, it would be a mistake to lose this opportunity for California to take the lead in creating the new fuels and technologies that the world will need in coming decades.

Should you have any further questions or comments, please feel free to me at (916)322-5840 or mnichols@arb.ca.gov, or Robert Oglesby at (916)322-5840 or roglesby@arb.ca.gov.

Sincerely,



Mary D. Nichols
Chairman

cc: Larry Goulder, Ph.D.
EAAC Chair
Stanford University