



November 9, 2009

Via: e-mail to eaac@calepa.ca.gov

Chairman Larry Goulder
Economic and Allocation Advisory Committee
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Suggestions for the EAAC

Dear Chairman Goulder and Committee Members,

Thank you for carefully considering the important and complex issues before the Economic and Allocation Advisory Committee (EAAC). Your recommendations will play a vital role in shaping California's response to climate change under AB32. As you develop your Draft Report, we encourage you to review the allocation revenue use recommendations presented in the group letter submitted by public health and environmental organizations on July 15th. Based on the discussion at the October 7th and November 4th meetings, we also urge you to incorporate the following suggestions into your draft report.

1. Use AB32 as a Guidepost for Distribution of Allowance Value

EAAC should use the statutory language in AB32 as a framework for evaluating investment opportunities. Chairman Goulder established four criteria to guide the distribution of allowance value: cost-effectiveness, fairness, environmental effectiveness, and simplicity. These criteria are rooted in the language of AB 32, but we urge the Committee to make the connection more clear. Calling out the specific statutory language will help add clarity to EAAC's evaluation and recommendations. In particular, we believe it is important to clarify the second and third criteria:

- **Fairness.** This criterion should be rooted in AB32's requirements to mitigate impacts on low-income communities. See §§ 38562(b)(2), 38565.

- **Environmental Effectiveness.** This criterion is not simply related to GHG reductions, but is rooted in AB32's intent to maximize air quality, public health, environmental and other co-benefits. EAAC's formulation of this criterion should explicitly reference AB32's requirements to complement efforts to curb air pollution and toxics, to consider the public health and other societal benefits of the program, and to maximize environmental co-benefits. *See* § 38562(b)(4), § 38562(b)(6), § 38501(h).

2. Explicitly Apply Criteria to Each Possible Use of Allowance Value

The Draft Report is not systematic in evaluating how each possible use of allowance value meets each of the criteria established by the Committee. The Report should explicitly consider how well each use meets each criterion, and be as specific as possible. For example, most options could be called "fair" from the perspective of some party, so defining fairness more specifically, as discussed above, will help make that a more useful criterion for comparing different options to each other.

3. Focus on Transition, Rather than Compensation

California must transition to a clean energy economy. Allowance value should be used to help and encourage businesses move into the new economy, rather than to give firms rewards for lagging behind.

4. Use Allowance Value to Overcome Market Barriers

EAAC should identify cost-effective GHG reductions that currently face market barriers that could be overcome with allowance value. As the Scoping Plan, ETAAC's first report, the McKinsey curve, and committee member Jim Sweeney's analysis highlight, there is a large menu of pollution reduction measures that are already cost effective but are blocked from widespread use by market barriers. The Committee should direct allowance revenue towards local, state, and regional agencies and programs with the institutional capacity to correct the prevailing market barriers. (See below for examples.) Employing allowance value to knock down market barriers will allow GHG emissions to be reduced faster and at lower cost than under a cap alone.

5. Use Allowance Value to Reduce GHG Emissions while Simultaneously Achieving AB 32's Other Goals

As indicated above, AB 32 sets out many goals to achieve while reducing GHG emissions. There are many opportunities to use allowance value to achieve these multiple goals, including:

- Reducing costs to consumers, particularly low-income consumers, through investments in end-use efficiency beyond the state's existing programs, and possibly through direct payments;
- Investing in technologies and strategies to reduce GHG emissions, such as energy efficiency, renewable energy, transit, soil carbon sequestration practices, and recycling, as well as RD&D of innovative technologies to reduce GHG emissions;

- Providing economic opportunities to low-income and disadvantaged communities and the institutions that support them including: small businesses, schools, affordable housing developments and associations, and other community institutions;
- Supporting air and toxic pollution reduction efforts and enforcement programs, particularly in environmental justice communities;
- Supporting development of “green collar” jobs through training and outreach; and
- Investing in climate change adaptation research and strategies, including local public health education and preparedness programs, and measures to safeguard the capacity of our natural resources to provide clean water, clean air, healthy soil, and healthy environments. The strategies identified in the draft State Climate Adaptation Plan to protect California residents and resources from the worst effects of climate change should be supported in the EAAC’s recommendations as the state, regional and local agencies are not financially prepared to implement these vital efforts.

Thank you for considering our suggestions and for the opportunity to participate in this important process.

Sincerely,

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