

**SIERRA CLUB CALIFORNIA'S
COMMENTS ON OPTIONS FOR
ALLOCATING CARBON POLLUTION
PERMIT REVENUES**

Economic and Allocation Advisory Committee (EAAC)
San Francisco, November 18, 2009

I am Edward Mainland, representing Sierra Club California with more than 200,000 members throughout the state. My statement revises and extends previous Sierra Club comments submitted to EAAC October 9, 2009.

With many other environmental, civic, business and scientific groups, Sierra Club reiterates its support for 100-percent auctioning. We note the strong case for auctioning in EAAC's draft report. We urge the Committee to maintain its evident consensus around the principle of auctioning. In our view it is the best and most elegant way to allocate value and achieve the highest efficiency in reducing carbon emissions. It would be unwise to water down full auctioning with delays of many years, as some have proposed. Default to free allocation in the short term is illogical: EAAC members have noted that if auctioning is good for the long term, it's equally good for the short term.

With regard to use of allowance value, Sierra Club urges EAAC give first priority to direct investment in carbon emissions reduction, consistent with the intent and purpose of AB 32. This means investment in public transit, land use planning, efficiency, renewables, disadvantaged communities, green jobs and resource adaptation. We are disappointed that EAAC's discussion November 18 covered mostly only dividends and tax cuts, ostensibly because of time constraints. We urge EAAC to schedule an ample public discussion of compensation and investment/public expenditure options in the nearest future. We note public testimony in favor of these options at EAAC's meeting.

In Sierra Club's view, any Community Benefits Fund, cited in EAAC's report, should be allocation-based, not source by source. Sierra Club recommends EAAC develop a framework in its report for how a percentage of the allowance value might be established.

Sierra Club is skeptical of so-called "cap and dividend" distribution of permit auction revenues, whether to the general fund or public at large, especially if this were to compete with funds needed to protect the climate directly. In regards to cap and dividend payout, Sierra Club's calculations indicate that under any likely set of assumptions about fees, per capita payout would be too small to be attractive to the public. We propose EAAC itself run such calculations in order to either validate or refute Sierra Club's conclusions. In any case, numbers on this need to be included in EAAC's report.

Sierra Club believes there is a strong case against using AB 32 allowance value for tax cuts. We are skeptical about the relative effectiveness of any "hybrid" combination of cap and dividend and tax cuts to cut carbon emissions. Under California's constitution, a tax cut would require a two-thirds vote, in our view making it quite impractical and a legal quagmire.

Sierra Club recommends that EAAC oppose compensation for industries, especially where that would defeat AB 32's intention by weakening crucial price signals to the economy.

Sierra Club believes EAAC's purview does in fact extend to offsets, insofar as they are clearly factors affecting allowance values and pricing. We note that there is nothing in EAAC's draft report on offsets. Sierra Club recommends correcting this omission along the lines of analysis in a recent letter to EAAC from Union of Concerned Scientists which suggests calculating the possible impact of offsets on allowance price and other co-benefits to California, including benefits subverted or lost by the use of offsets. Sierra Club sees EAAC's purview logically extending at least to a reckoning of loss of potential revenue and investment from capital outflows and decreases in allowance price owing to the use of offsets. EAAC's report will be incomplete and less credible if it does not include these numbers.

Sierra Club recalls to EAAC's attention Sierra Club's set of nine design principles for allocation of carbon-emission permit revenue allocation submitted October 9 to EAAC. We believe they are even more timely now. Sierra Club hopes EAAC will take them into account as EAAC's draft report on allocations moves toward completion.

They are:

1. GHG Performance: Payments should be performance based, according to objective and independently verified measures of GHG reductions per dollar spent.

2. Co-benefits: Prioritize measures that provide the optimal co-benefits of large GHG reductions combined with maximum feasible reductions in other pollutants that affect public health.

3. Low Income Assistance: When any carbon assessment increases the cost of energy (e.g. gasoline, etc.), use revenues to offset these increased expenses to the most economically disadvantaged families and small businesses, particularly focusing on green jobs and economic development in low-income communities. Assistance with utility bills is already provided for low-income families. We recommend improved administration of the \$1 billion in consumer assistance programs.

4. Improve Equity: Prioritize measures that provide the largest feasible benefits for communities that are already subjected to environmental justice and cumulative impacts.

5. Multiplier Benefits: Opportunities should be sought for using a multiplier effect, such as revolving loan funds, or matching funds.

6. Upstream Leverage: Upstream intervention can lead to widespread changes and benefits, such as funding public planning for greenhouse gas reductions, assisting research

and development, or inducing manufacturing and commercial development of green products that improve quality, reduce cost, or overcome supply bottlenecks.

7. Accountability: measures should require communities and public agencies to agree to repay funds in proportion to shortfalls in meeting carbon reduction targets.

8. Transparency: Performance metrics should be posted on the internet and provide avenues for public involvement in efforts to reduce greenhouse gases.

9. Administrative Costs: Ensure adequate support for administering the carbon reduction programs.

Sincerely,

/s/

Edward A. Mainland
Co-Chair, Energy-Climate Committee
Sierra Club California
415-902-6365

###