

**American Lung Association of California * Breathe California * Californians Against Waste
Center for Resource Solutions * Climate Protection Campaign * Coalition for Clean Air
Environment California * Environmental Defense Fund * Natural Resources Defense Council
Sierra Club California * The Nature Conservancy * Union of Concerned Scientists**

March 31, 2009

Sam Wade
California Air Resources Board
1001 "I" Street
Sacramento, CA 95812

Re: Recognizing Voluntary Early Actions in Cap-and-Trade

Dear Mr. Wade,

On behalf of the undersigned organizations, we would like to thank the California Air Resources Board for the opportunity to comment on issues relating to voluntary early emissions reductions in a California cap-and-trade program. It is imperative that state, national, and local policymakers promote immediate action to reduce greenhouse gas emissions, and thus we appreciate CARB's efforts to consider how best to encourage early action in designing an effective cap-and-trade program as part of AB 32.

The following recommendations are motivated by several fundamental design objectives: the environmental integrity of a cap that is declining to meet both 2020 and 2050 goals, expectations for a significant reliable long term price signal, a well-monitored marketplace, regulatory certainty, and administrative simplicity. We believe these criteria are requisite for achieving an effective cap-and-trade program, and therefore, we offer the following recommendations:

- **Auction allowances to incentivize early action** – Auctioning 100% of the allowances is the most effective, simplest, and fairest way to encourage early action. While CARB's ultimate determination for distributing allowances will be based on numerous criteria, it is important that CARB consider the benefits of auctioning allowances when determining the best manner to encourage early emissions reductions. As the Market Advisory Committee concluded, "If allowances are auctioned, early action may provide its own rewards by reducing the number of allowances a firm must purchase once the cap-and-trade program is in place... Thus consideration of early action favors auctioning" (pg 61). Our organizations wholeheartedly agree, and we encourage CARB to utilize an auction as the primary means to promote early action.
- **Carve out early action allowances from within the cap** – If CARB decides to issue allowances to reward specific early actions, CARB should avoid violating the environmental integrity of the cap-and-trade program. Therefore, it is important that early action allowances to capped entities are carved out of the cap – not added to it. CARB will determine annual caps starting in 2012 so that California will achieve the emissions reductions goal for 2020; adding allowances on top of that carefully selected cap may undermine pursuit of the reduction goals because it would require steeper reductions as we approach 2020.
- **Maintain distinction between capped sources and uncapped sources** – We believe that early action allowances in a cap-and-trade program should be reserved for early actions taken by capped sources. There should be a separate process for designing offset criteria and eligibility, including mechanisms for recognizing reductions achieved before the start of other regulatory programs in 2012.

- **Reductions must actually occur before 2012** – It is important to limit early action allowances to incent discrete actions, and to only reward reductions that can be proven to have actually occurred before 2012. In addition, we recommend that no early reduction allowances should be given to actions taken prior to the passage of AB 32.
- **Incentivize air quality and public health co-benefits** - If CARB decides to issue allowances for specific early actions, CARB should include consideration of whether early actions also demonstrate air quality or public health co-benefits. Co-benefits should be one criterion for awarding early action allowances to ensure that greenhouse gas reduction measures are contributing to improved public health and reduced pollution in communities in California.
- **Keep it simple** – Given CARB’s myriad responsibilities in designing and developing a cap-and-trade program, we believe it is prudent for CARB to be wary of the potential administrative burdens of a complex program to promote early action. Consequently, we encourage CARB to strive to develop a straightforward and administratively simple – yet still effective – approach to promote early reductions of global warming pollution.¹

Thank you again for consideration of our comments. We look forward to continuing to work with CARB staff on this and other design issues relating to implementation of the AB 32 cap-and-trade program.

Sincerely,

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Sierra Club California

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Mike Sandler
Climate Protection Campaign

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Breathe California

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Californians Against Waste

¹ For example, the background document asks, “Should credits be based on total reductions achieved prior to 2012 without regard to when in the eligibility window these occurred (e.g., one source might have started in 2007, and another source may not have started until 2011)?” While we agree with the theoretical justification for rewarding earlier reductions with more credit, we believe that the added complexity of such a design element is not worth the added administrative burden, especially considering the numerous other cap-and-trade design elements that demand CARB staff’s time and attention.