Mike Sandler
7217 Bath Street
Springfield, VA 22150
www.carbonshare.org

For the Public Record

April 23, 2014

To: California Air Resources Board

Re: Comments on the Proposed First Update to the Climate Change Scoping Plan

Thank you for accepting these comments on the Proposed First Update to the Climate Change Scoping Plan. I am a long-time California resident who recently relocated to Northern Virginia. My comments focus principally on the carbon pricing system. Since 2006 my comments have consistently encouraged the California Air Resources Board (ARB) to adopt these four design elements of a carbon pricing system: 1) an upstream system, 2) auctioning permits, 3) dividends to consumers, 4) a price floor and carbon fees.

California has shown leadership in implementing its Cap & Trade program. The auction and price floor are primary factors contributing to the success the program has had thus far. I would go so far as to say that the program would be a failure similar to the European ETS without them. ARB has the opportunity to improve the California program by increasing the amount of allowances auctioned, reducing the free allowances to industrial emitters, and returning more revenues collected back to households as a dividend.

Increase the dividend

In February 2014, State Senate President Pro Tempore Darrell Steinberg (D- Sacramento) advocated for a carbon pricing system that addresses poverty and returns revenues to low and middle-income families. Senator Steinberg's speech announcing the proposal prioritizes helping families and households and making connections between protecting the climate and addressing poverty.[1] Although his proposal could have been improved by making the rebate a universal dividend covering all Californians rather than tied to income, and delivering it separately from the tax system, the Senator should be commended for connecting issues of long-term economic inequality to the transition to a low-carbon economy. More recently, Senator Steinberg stepped away from the carbon tax proposal and is now backing a spending plan more similar to the Governor's plans with a few additions. Affordable housing, smart growth, and infill is helpful to urban residents, but as a major part of Steinberg's spending plan, it omits millions of rural and suburban Californians. Thankfully, Senator Steinberg includes $200 million for climate dividends in his plan. While it is encouraging to see it mentioned, this small amount for dividends (about 4% of the total) will not have the needed impact in unifying a constituency

[1] http://sd06.senate.ca.gov/sites/sd06.senate.ca.gov/files/MASTER-Press-Club-2014-Speech_0.pdf

behind a strong carbon price, nor will it address the criticism that the program will face amidst high (and unrebated) gasoline prices. Consumers are sensitive to daily swings in the price of gasoline. Only a strong rebate or dividend can counteract the tendency toward backlash. The dividend should comprise more 50% of funds raised, and a better range would be around 75%.

The revision of the Scoping Plan provides a good opportunity to revisit the Economic and Allocations Advisory Committee (EAAC) report.[2] The EAAC report recommended that, "The largest share (roughly 75%) of allowance value should be returned to California households..." The best way to return the value to consumers is through a dividend.[3]

In a recent online article, Severin Borenstein of the UC Energy Institute states that California's AB32 program will not have the global impact it needs to have unless it prioritizes technology that can be transferred to developing countries.[4] Similarly, or even more importantly, would be setting up a carbon pricing system that could be exported around the world. The formula to do so is simple: auction allowances and return the funds to people. Returning revenues to households equally coupled with the Contraction & Convergence proposal for global equity in per capita emissions would appeal to the other 80% of the world, and could put California in a global leadership role in the run up to the next round of international climate talks.

Dividend from electricity sector should be off-bill

In April 2014, millions of California households will receive a return of value from the electricity sector, through an on-bill "climate credit." This is a breakthrough for the concept of revenue returned to people, but it could also be improved with an off-bill, separate return on a debit card. Off-bill delivery would make explicit the idea that the value of the atmospheric commons belongs to everyone. An off-bill dividend would raise awareness of how households can benefit from a carbon price by reducing their carbon footprint. The utilities complained about the high administrative cost of off-bill dividends, but that cost is worth it for building this long-term solution that provides an income stream to millions of households in an economy with persistent unemployment.[5]

Problems with spending revenues on large infrastructure ("Cap & Rail")

It is tempting, in fact irresistible, for government to want to spend auction revenues on large infrastructure projects. What politician would not want to see their name on a plaque in front of a huge green energy project, paid for with Cap & Trade funds from polluters? However, there are good arguments against this approach.[6] One often overlooked problem with using funds on large infrastructure projects to reduce emissions is that the emission reductions may simply reduce the price of allowances, or change relative price of emissions between sectors, but result in no net emission reduction because the reductions achieved only create space for new

---

[2] http://www.climatechange.ca.gov/eaac/index.html
[3] http://www.dividendsforamerica.org/resources.html
[4] Borenstein, Severin. "It's time to refocus California's climate strategy," The Berkeley Blog, 4/9/14, available at http://blogs.berkeley.edu/2014/04/09/its-time-to-refocus-californias-climate-strategy/
[5] http://onthecommons.org/magazine/economic-security-beyond-jobs
[6] http://www.carbonshare.org/docs/Howtospendtherevenues3_8x11PDF.pdf

emissions from other sectors under the cap. In other words, the space below the cap created by the infrastructure investment is simply filled up by emissions in other sectors.

I have traveled to Europe and Japan, and I am a supporter of high-speed rail in general. However, I feel that using Cap & Trade funds on California's high-speed rail ("Cap & Rail") is a terrible idea. The project will generate no real emission reductions before 2020, and will take decades to achieve a net emission reduction. Those who want to use funds to reduce emissions must feel conflicted since this is so obviously not cost-effective. The goal of a carbon pricing program is not to build big capital projects. It is to provide an economic incentive to Californians to change their economic behavior. Behavior change is better accomplished by returning the funds to Californians through a dividend. Cap & Rail neglects the regressive impacts of a carbon price on low-income families and is needlessly creating a politicized situation by unifying opponents of high-speed rail and cap and trade.

Technology alone is insufficient – We need an escalating carbon price

My theory of change is as follows:

1) Price on carbon
2) Dividends returned to people
3) Political acceptability for higher price on carbon
4) Actually affecting economic choices across all sectors, giving incentives to companies to produce lower carbon products, and for people to buy them
5) New technologies, transform the economy

Unfortunately, most people seem to ignore the potential of a price on carbon, and get swept up in the technophilia of gadgets and just go straight to step #5 without doing steps 1-4. The Updated Scoping Plan is a chance to re-focus the State's climate change programs on a carbon price that will actually be able to achieve the goals of AB32.

Sincerely,

Mike Sandler