

MEETING
STATE OF CALIFORNIA
AIR RESOURCES BOARD

JOE SERNA, JR. BUILDING
CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY
BYRON SHER AUDITORIUM, SECOND FLOOR
1001 I STREET
SACRAMENTO, CALIFORNIA

THURSDAY, MARCH 25, 2010

9:00 A.M.

TIFFANY C. KRAFT, CSR, RPR
CERTIFIED SHORTHAND REPORTER
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APPEARANCES

BOARD MEMBERS

Ms. Mary Nichols, Chairperson

Dr. John R. Balmes

Ms. Sandra Berg

Ms. Doreene D'Adamo

Mrs. Barbara Riordan

Mr. Ron Roberts

Dr. Daniel Sperling

Dr. John Telles

Mr. Ken Yeager

STAFF

Mr. James Goldstene, Executive Officer

Ms. La Ronda Bowen, Ombudsman

Mr. Tom Cackette, Chief Deputy Executive Officer

Mr. Bob Fletcher, Deputy Executive Officer

Ms. Ellen Peter, Chief Counsel

Ms. Lynn Terry, Deputy Executive Officer

Ms. Lori Andreoni, Board Clerk

Ms. Karen Buckley, Manager, Goods Movement Strategies
Section, Planning and Technical Support Division

Mr. David Kennedy, Staff, Program Development Section,
Office of Climate Change

APPEARANCES CONTINUED

STAFF

Ms. Cynthia Marvin, Assistant Division Chief, PTSD

Mr. Scott Rowland, Chief, On-Road Controls Branch, MSCD

Mr. Doung Trinh, Air Pollution Specialist, Carl Moyer
Off-Road Section, Mobile Sources Control Division

ALSO PRESENT

Mr. Rafael Aguilera, Climate Protection Campaign

Mr. David Arrieta, WSRL

Ms. Kate Beardsley, PG&E

Mr. Omar Benjamin, Port of Oakland

Ms. Susie Berlin, Northern California Power Agency

Mr. Paul Bernstein, Charles River Associates

Mr. Lakhbir Bhambra, NCPRTA

Mr. Louis Blumberg, The Nature Conservancy

Mr. James Brady

Mr. Todd Campbell, Clean Energy

Mr. Tim Carmichael, California Natural Gas Vehicle
Coalition

Ms. Strela Cervas, California Environmental Justice
Alliance

Ms. Brenda Coleman, California Chamber of Commerce

Mr. Brian Cragg, Goodin, MacBride, Squeri, Day & Lamprey,
LLP

Mr. Ivinder Dhanda, NCPRTA

APPEARANCES CONTINUED

ALSO PRESENT

Ms. Kristin Eberhard, NRDC

Mr. Sean Edgar, Clean Fleets Coalition

Mr. Randal Friedman, U.S. Navy

Professor Larry Goulder, Stanford University

Mr. Frank Harris, Southern California Edison

Ms. Bonnie Holmes-Gen, American Lung Association

Mr. Mike Jacob, Pacific Merchant Shipping Association

Mr. Ed Juarez, NCPRTA

Ms. Barbara Lee, NSCAPCD

Mr. Steven Levy

Mr. Edwin Lombard, California Black Chamber

Mr. Mark Loutzenhiser, Sacramento Air Quality District

Mr. Bob Lucas, CCEEB

Mr. Bill Magavern, Sierra Club California

Mr. Nile Malloy, Communities for a Better Environment

Mr. Rick McVaigh, San Joaquin Valley Air Pollution Control Officer

Mr. Fred Minassian, South Coast AQMD

Mr. Ralph Moran, Sempra Energy

Mr. Torm Nompraseurt, Asian Pacific Environmental Network

Ms. Sofia Parino, CRPE

Mr. Norm Pedersen, South Coast Public Power Authority

Mr. Brad Poiriez, Imperial County ACPD

Mr. Shankar Prasad, Coalition for Clean Air

APPEARANCES CONTINUED

ALSO PRESENT

Ms. Betsy Reifsnider, Catholic Charities

Mr. Jim Rothstein

Mr. Mike Sandler, Climate Protection Campaign

Mr. Tim Schott, California Association of Port Authorities

Mr. Malak Seku-Amen, CA NCAACP

Ms. Sahar Shirazi, Ella Baker Center

Mr. Richard Sinkoff, Port of Oakland

Mr. Joseph Steinberger, Bay Area Air Quality Management
District

Ms. Mari Rose Taruc, Asian Pacific Environmental Network

Mr. Vien Truong, Green for All

Mr. Tim Tutt - SMUD

Dr. Barry Wallerstein, SCAQMD

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CHAIRPERSON NICHOLS: The March 25th public

meeting of the Air Resources Board will come to order.

And we will begin before we take the roll call

with the Pledge of Allegiance to the flag.

(Thereupon the Pledge of Allegiance was

recited in unison.)

CHAIRPERSON NICHOLS: Thank you. And welcome,

everybody.

We will now call the roll.

BOARD CLERK ANDREONI: Dr. Balmes?

BOARD MEMBER BALMES: Here.

BOARD CLERK ANDREONI: Ms. Berg?

BOARD MEMBER BERG: Here.

BOARD CLERK ANDREONI: Ms. D'Adamo?

BOARD MEMBER D'ADAMO: Here.

BOARD CLERK ANDREONI: Ms. Kennard?

Mayor Loveridge?

Mrs. Riordan?

BOARD MEMBER RIORDAN: Here.

BOARD CLERK ANDREONI: Supervisor Roberts?

BOARD MEMBER ROBERTS: Here.

BOARD CLERK ANDREONI: Professor Sperling?

BOARD MEMBER SPERLING: Here.

BOARD CLERK ANDREONI: Dr. Telles?

1 Supervisor Yeager?

2 BOARD MEMBER YEAGER: Here.

3 BOARD CLERK ANDREONI: Chairman Nichols?

4 CHAIRPERSON NICHOLS: Here.

5 BOARD CLERK ANDREONI: Madam Chair, we have a
6 quorum.

7 CHAIRPERSON NICHOLS: Thank you.

8 I need to make a few remarks before we get
9 started.

10 First of all, just to make sure everybody is
11 aware that we have made a change in the order of the
12 agenda today. Agenda Item 10-3-7, which is the report of
13 the Economic and Allocation Advisory Committee, will be
14 heard before Item 10-3-6, the economic analysis update.

15 I'm also required to remind you that we need to
16 pay attention to the emergency exits that are at the rear
17 of the room. In the event of a fire alarm, we're required
18 to evacuate this room through those exit doors and go down
19 the stairs and out of the building. When the all-clear
20 signal is given, we will return to the hearing room and
21 resume the hearing.

22 Anyone who wishes to testify on any Board Item
23 should sign up with the clerk of the Board. And we
24 appreciate it, but it's not required, that you put the
25 name on the card.

1 Also, we generally impose a three-minute time
2 limit on all speakers. And we would appreciate it if you
3 would state your name when you come up to the podium and
4 actually speak. And we also appreciate it if you put your
5 testimony in your own words rather than reading it. It
6 helps to get us straight to the point and uses the time
7 more effectively. We don't need written testimony to be
8 read, because it's automatically entered into the record.

9 With that, we'd like to begin with our first
10 item, which is a consent item, with a research proposal.

11 And I'd like to ask the Board members if there is
12 any -- well, first of all, ask if anyone signed up to
13 testify on this item on the research proposal. Okay.

14 Are there any Board members that would like to
15 see this item removed from consent and opened up for
16 discussion?

17 Seeing none --

18 BOARD MEMBER RIORDAN: Move staff recommendation.

19 BOARD MEMBER D'ADAMO: Second.

20 CHAIRPERSON NICHOLS: All in favor, say aye.

21 (Ayes.)

22 CHAIRPERSON NICHOLS: Thank you.

23 I'd just note this is something that was actually
24 approved -- this particular proposal was approved in
25 concept as part of the annual research plan. So just for

1 those in the audience who may not be following it, it's
2 intended to support how the development of cost effective
3 strategies that will support voluntary efforts for
4 mitigating climate change through reduced consumption of
5 residential energy. This is a very timely and useful
6 proposal.

7 BOARD MEMBER SPERLING: Chairman Nichols.

8 Just for the record, I recused myself from that
9 vote because of U.C. Davis.

10 CHAIRPERSON NICHOLS: Please note that
11 Dr. Sperling did not vote on that item.

12 The next item on the consent calendar is Agenda
13 Item 10-3-2, proposed amendments to the area designation
14 criteria and the area designation for state ambient air
15 quality standards.

16 Clerk, has anyone signed up to testify on this
17 item?

18 Clerk, do we have anybody who's asked to testify
19 on this item?

20 BOARD CLERK ANDREONI: No.

21 CHAIRPERSON NICHOLS: Are there any Board members
22 who would like to remove this item from consent?

23 Seeing none, we will then ask if there's any ex
24 parte communications on this item.

25 Seeing none, we have before you Resolution 10-17

1 with the staff recommendations on the designations.

2 May I have a vote?

3 BOARD MEMBER BERG: So moved.

4 BOARD MEMBER RIORDAN: Second.

5 CHAIRPERSON NICHOLS: All in favor, please say
6 aye.

7 (Ayes.)

8 CHAIRPERSON NICHOLS: Thank you.

9 We're new to this process, so sorry if it seems
10 stumbling.

11 We have another consent calendar item. This is
12 to consider approval of South Coast air basin PM10
13 redesignation request along with a maintenance plan and a
14 transportation conformity budget.

15 And again I would like to ask the clerk if we
16 have any sign-ups to speak.

17 None. Okay.

18 Any Board members who would like to remove this
19 item from the consent calendar?

20 All right. In that case, we will close the
21 record and ask for a motion on Resolution 10-21.

22 BOARD MEMBER BERG: So moved.

23 BOARD MEMBER RIORDAN: Second.

24 CHAIRPERSON NICHOLS: All in favor, please say
25 aye.

1 (Ayes.)

2 CHAIRPERSON NICHOLS: Any opposed?

3 Carries.

4 All right. Now we move on to Agenda Item 10-3-3.

5 And I want to call on Board Member Sandra Berg to make
6 some opening remarks before we move into the staff
7 discussion here. This is the item relating to incentive
8 programs, and Ms. Berg has chaired our Incentives Advisory
9 Group, spent many hours at staff workshops, and held many
10 constructive meetings with stakeholders. I think they've
11 developed some real solutions. And I want to thank her in
12 advance for all of her good work here.

13 BOARD MEMBER BERG: Thank you, Chairman Nichols.

14 I've been asked to lay the foundation for the
15 staff report on the Carl Moyer and the 1B guideline
16 changes.

17 We all know how the incentive funding has been
18 very important towards meeting our air quality goals and
19 guidelines. But there's no question that these programs
20 have provided two major, unique opportunities towards our
21 goal of clean air. The first has provided a partnership
22 opportunity with industry to reduce emissions early. But
23 second and as important, it has also proposed and
24 supported clean technology to the marketplace early.

25 In laying the foundation for our discussion

1 today, I'm pleased to do that in the context of the
2 Incentive Funding Advisory Group. You may notice a name
3 change from the Carl Moyer Advisory Group, which in and of
4 itself acknowledges the changing landscape of our
5 incentive program to programs.

6 By way of background, two years ago, Chairman
7 Nichols revitalized the Carl Moyer Advisory Group, which
8 had successfully tackled guideline changes over the years
9 and to meet our last guideline changes. One of the
10 outcomes of those two meetings was identifying a myriad of
11 opportunities and challenges administering several
12 incentive programs, and those challenges applied to all
13 stakeholders. It was a strong consensus of our advisory
14 group to continue our meetings and tackle these challenges
15 in order to maximize the opportunities to achieve maximum
16 surplus emissions for our dollars spent.

17 It might be of interest that the Incentive
18 Funding Advisory Group consists of all stakeholders: ARB
19 staff, district, CAPCOA, industry administrators, and
20 industry user groups, as well as community environmental
21 and our health advocates.

22 Our meetings are very well attended. We have an
23 average of 40 to 50 people who commit three to four hours
24 to each meeting.

25 Understanding that the incentive programs will

1 meet increasing demand over the next few years, however, a
2 larger group of users will come under regulation and no
3 longer be eligible for the funding, as our challenge
4 becomes multi-faceted how to reach out to the smaller
5 users who traditionally have not taken advantage of these
6 funding opportunities. And equally important is what do
7 our funding opportunities look like in the future? Couple
8 these challenges with the ever-increasing squeeze on
9 resources like time and money, it becomes more imperative
10 to streamline our administrative activities while
11 maintaining transparency and integrity of the programs.

12 As Barry Wallerstein reminds us during our
13 meetings, we are now managing a portfolio of programs, not
14 just one program. And our Committee has determined that
15 our goals need to be -- we need to be seamless on the
16 front end, so matter how many programs we have coordinated
17 on the back.

18 To that end, CAPCOA and ARB organized a one-day
19 retreat in January of this year. We focused on three
20 areas: Improving agency administration; second, project
21 specification issues; and the third issue was improving
22 end user experience. At the end of the day, we have, as
23 you can imagine, very dynamic discussions, but we left
24 with a two-page follow-up list.

25 This meeting was followed up by our Incentive

1 Advisory Advisory Group meeting on March 10th. I'm
2 pleased to say that after a four-hour meeting, also
3 bringing that group up to speed with what had transpired
4 at the one-day retreat and going over the guidelines, that
5 the group has the consensus that we are generally
6 supporting the guidelines which will be presented by staff
7 today, and also that there is a caveat with the NGOs
8 having expressed concerned over the relaxation of the
9 two-year California registration period for the Prop 1B.
10 And I know we'll have some further discussion on that.
11 We'll hear that both in testimony and staff's input.

12 As I turn the discussion over to staff, there's
13 no question that the incentive programs have been a
14 cornerstone for surplus emissions and benefits to our air
15 quality.

16 That said, we have quite a lot of challenges
17 still in front of us. And at the end of the meeting, I
18 polled all of our group to make sure that this commitment
19 of time and resources was still obtaining our goal, and
20 they felt that the process was useful.

21 Chairman Nichols, I'm pleased to report that the
22 Committee would like to continue its work, and has
23 recommitted that this Advisory Group is very important,
24 and that we would like to continue the work that we have
25 begun.

1 Thank you very much.

2 CHAIRPERSON NICHOLS: Thank you. That possibly
3 falls in the category of no good deed goes unpunished.
4 But I would very much like to thank and commend you.
5 Every Board member of this Board puts in hours of time
6 that represents the Board and their communities and
7 elsewhere. And, you know, we have had really a terrific
8 amount of volunteer, very important high level activities
9 from our Board members. But this one has been a long
10 process, and I think the facilitation efforts that you
11 have put in here are particularly appreciated. So thank
12 you on behalf of all of us.

13 I'd now like to turn to staff for discussion of
14 the specific item that's before us this morning, which is
15 the 1B Goods Movement Emission Reduction Program
16 guidelines.

17 EXECUTIVE OFFICER GOLDSTENE: Thank you, Chairman
18 Nichols.

19 In this update, we've taken the opportunity to
20 recommend improvements based on program experience and
21 current economic conditions.

22 The proposed update responds to the Board's
23 direction to increase access to grant funding and
24 financing for cleaner trucks. It would also align the
25 Prop. 1B and Carl Moyer programs where possible.

1 The changes incorporate many of the specific
2 suggestions that we've heard over the last year from local
3 air districts, ports, truckers, railroads, and
4 environmental advocates. The priority continues to be on
5 reducing the health risk to communities near freight
6 facilities by cleaning up equipment sooner than otherwise
7 required.

8 Where a compliance date has passed, the program
9 will focus on incentives for equipment that goes beyond
10 the regulatory requirements. The update also recognizes
11 the value of reducing greenhouse gas emissions by
12 proposing new project choices for electronic and hybrid
13 technologies.

14 I'd now like to have Ms. Karen Buckley of the
15 Planning and Technical Support Division begin the staff
16 presentation. Karen.

17 (Thereupon an overhead presentation was
18 presented as follows.)

19 GOODS MOVEMENT STRATEGIES SECTION MANAGER

20 BUCKLEY: Thank you, Mr. Goldstene. Good morning,
21 Chairman Nichols and members of the Board.

22 I'm pleased to present staff's recommendations to
23 update the Goods Movement Emission Reduction Program
24 guidelines.

25

--o0o--

1 GOODS MOVEMENT STRATEGIES SECTION MANAGER

2 BUCKLEY: After a brief review of the existing program,
3 I'll highlight the progress to date and then summarize the
4 proposed changes to update the program guidelines. Then
5 I'll discuss the key comments we've heard in response to
6 the update, followed by a few additional program
7 modifications we suggest, and conclude with staff's
8 recommendations for Board action today.

9 --o0o--

10 GOODS MOVEMENT STRATEGIES SECTION MANAGER

11 BUCKLEY: The incentives available under this program are
12 part of the Board's initiatives to reduce the localized
13 cancer risks around freight facilities, regional ozone,
14 and fine particulate pollution, and greenhouse gases.

15 --o0o--

16 GOODS MOVEMENT STRATEGIES SECTION MANAGER

17 BUCKLEY: California voters approved Proposition 1B in
18 2006, authorizing one billion dollars in bond funding for
19 cleaner freight equipment to cut diesel emissions and the
20 related health risk in communities near ports, rail yards,
21 freeways, and distribution centers.

22 --o0o--

23 GOODS MOVEMENT STRATEGIES SECTION MANAGER

24 BUCKLEY: The priority trade corridors encompass the most
25 heavily traveled regions of the state. Prop. 1B funding

1 is available to owners of equipment based in these regions
2 as well as equipment based elsewhere in the state as long
3 as the equipment operates at least 50 percent of the time
4 within these corridors.

5 --o0o--

6 GOODS MOVEMENT STRATEGIES SECTION MANAGER

7 BUCKLEY: The implementing statute defines the core
8 requirements of the program. ARB must adopt guidelines
9 for implementation and award grants to qualifying local
10 agencies. The bonds must be used to achieve early or
11 extra emission reductions compared to what is required by
12 regulation or enforceable agreements.

13 The program typically pays one-third to one-half
14 of the total project cost, with the remainder covered by
15 match funds from the equipment owners, local agencies, or
16 federal sources.

17 Finally, projects must compete for program
18 funding based on emission reductions and cost
19 effectiveness.

20 --o0o--

21 GOODS MOVEMENT STRATEGIES SECTION MANAGER

22 BUCKLEY: Consistent with statutory requirements, the
23 Board adopted the initial program guidelines in early
24 2008, and then awarded the first funds to local agencies.
25 The air districts and seaports quickly began

1 GOODS MOVEMENT STRATEGIES SECTION MANAGER

2 BUCKLEY: The Board also established overall category
3 funding targets. These charts illustrate that the targets
4 essentially mirror the contributions of each category to
5 the estimated health risk from the goods movement
6 emissions.

7 --o0o--

8 GOODS MOVEMENT STRATEGIES SECTION MANAGER

9 BUCKLEY: This slide shows the existing category funding
10 targets in dollars, including the subset of funding for
11 drayage versus non-drayage trucks. Drayage trucks receive
12 the highest allocation because of the health risk near
13 ports, rail yards, and inland distribution centers as well
14 as the accelerated cleanup required by ARB's rule for
15 these trucks.

16 --o0o--

17 GOODS MOVEMENT STRATEGIES SECTION MANAGER

18 BUCKLEY: I'll briefly discuss the progress that ARB and
19 the local agencies have made to implement the program.

20 --o0o--

21 GOODS MOVEMENT STRATEGIES SECTION MANAGER

22 BUCKLEY: The last three State budgets appropriated a
23 total of \$7,500,000 for the program.

24 In 2009, ARB received enough cash to fund 250
25 million in existing grants. We'll be receiving additional

1 community advocates.

2 --o0o--

3 GOODS MOVEMENT STRATEGIES SECTION MANAGER

4 BUCKLEY: The proposed updates incorporate many of the
5 ideas that we've developed with stakeholders to streamline
6 and enhance the program. The updates reflect the current
7 state fiscal policy for bond programs. This will ensure
8 that ARB has the bond funds already on deposit before
9 starting new grants. They also expand the choices and
10 funding for cleaner equipment in all source categories to
11 take advantage of technology advances. They increase
12 truckers' access to grants and supplemental financing.
13 They also require local agencies to offer all equipment
14 options within the funding categories. Finally, the
15 proposed updates include reallocation of some drayage
16 truck funds.

17 --o0o--

18 GOODS MOVEMENT STRATEGIES SECTION MANAGER

19 BUCKLEY: The original category funding target of 400
20 million for drayage trucks was based on retrofitting or
21 replacing trucks to reduce PM by the 2010 deadline in the
22 drayage truck rule. We've spent 125 million of the
23 allocation for this first phase.

24 More than half of the drayage trucks will meet
25 the 2014 requirements of the rule this year. The high

1 level of new trucks is largely due to gate fees on older
2 trucks serving the port of Los Angeles and port of Long
3 Beach. These 2008 fees transformed the industry much
4 faster than ARB's rule or the port's own programs
5 required.

6 For the few thousand drayage trucks with PM
7 filters that will need to be upgraded again in the second
8 phase, we recommend that the Board reserve up to 100
9 million for this purpose.

10 We also recommend that the Board reallocate 60
11 million of the drayage funds to ships at berth and cargo
12 equipment projects, and the remaining 115 million to other
13 trucks for early compliance with the statewide truck and
14 bus rule.

15 --o0o--

16 GOODS MOVEMENT STRATEGIES SECTION MANAGER

17 BUCKLEY: This table shows the effect of reallocating the
18 drayage trucks funds as I just described. ARB and local
19 agencies would administer a single pot of funds for
20 trucks, but manage part of that pot as a priority reserve
21 to further upgrade current drayage trucks.

22 The increased total of 160 million for ships at
23 berth and cargo equipment would provide sufficient funds
24 to cover fully half of the port's costs to bring electric
25 infrastructure to all cargo berths that must comply with

1 ARB's rule. Essentially, 50 percent of the per-berth cost
2 for 100 percent of the berth.

3 In contrast, the total of 475 million for
4 non-drayage trucks would cover 50 percent of the per-truck
5 cost for less than 10 percent of the California-based
6 trucks.

7 --o0o--

8 GOODS MOVEMENT STRATEGIES SECTION MANAGER

9 BUCKLEY: In this presentation, I will just characterize
10 the project elements that are new or different from the
11 current program.

12 --o0o--

13 GOODS MOVEMENT STRATEGIES SECTION MANAGER

14 BUCKLEY: The proposal includes lower cost options for
15 truckers to upgrade their vehicles through the purchase of
16 used trucks or combined PM and NOx retrofits.

17 We recognize that grants are very helpful to
18 purchase cleaner equipment, but many independents and
19 small truck fleets have difficulty securing the financing
20 to cover the remainder of the cost. The tighter credit
21 standards in today's economy increase the difficulty.

22 In response, we recommend that Prop. 1B funds be
23 used for truck loan subsidy and loan guarantee programs
24 for fleets of one to 20 trucks.

25 We'd like to note that ARB staff expects to

1 from freight sources, but we also look for opportunities
2 to cut greenhouse gases.

3 --o0o--

4 GOODS MOVEMENT STRATEGIES SECTION MANAGER

5 BUCKLEY: Many of the projects eligible for Prop. 1B
6 funding replace old diesel engines with more efficient
7 models or alternative power systems. An equipment owner
8 can receive program funds for cleaner diesel, natural gas,
9 electric, hybrid, or other technology that meets PM and
10 NOx performance standards.

11 ARB has also supported the ability of local
12 agencies to supplement the program funds with federal and
13 local monies to make alternative fuel choices more
14 attractive.

15 The proposal would make a minor change to the
16 calculation in cost effectiveness. Cost effectiveness is
17 based on the reductions in PM and NOx emission per state
18 dollar invested. Since reduction in greenhouse gases
19 aren't quantified as part of the benefit side of the
20 calculation, State incentives to cut greenhouse gases
21 shouldn't be included on the cost side of the calculation.

22 --o0o--

23 GOODS MOVEMENT STRATEGIES SECTION MANAGER

24 BUCKLEY: We are recommending that the Board make projects
25 for trucks, locomotives, and rail yards and ships at berth

1 a priority for funding in the next round of awards. If
2 the Board identifies priorities, staff will reflect those
3 in the notice of funding availability that starts the
4 process for new local and State agency grant proposals.

5 --o0o--

6 GOODS MOVEMENT STRATEGIES SECTION MANAGER

7 BUCKLEY: As of midday yesterday, the oral and written
8 comments we've received have been largely supportive of
9 the proposed changes to the guidelines. This slide
10 summarizes the requests for additional modifications.

11 Ports and shipping interests are asking that
12 Prop. 1B incentives cover 100 percent of the port's cost
13 to install grid-based shore power. This would be
14 inconsistent with state law and established policy for
15 incentive programs. It would also substantially erode the
16 health benefits from early or extra emission reductions.
17 The proposed update already includes numerous changes to
18 reduce the shore power compliance costs for sea ports.

19 Commenters also suggest that ARB should provide
20 an advantage for alternative fuel projects, in terms of
21 higher funding levels or funding priority. ARB staff is
22 updating the emission calculators for trucks to recognize
23 additional increments of PM and NOx reductions from
24 electric, hybrid, and other alternative fuel technologies,
25 which will increase their competitiveness for promised

1 just described. This action today would allow staff to
2 solicit agency proposals for new projects and the Board to
3 award the next 200 million in funds this June.

4 This concludes the staff presentation. Thank
5 you. And we'd be happy to answer any questions you may
6 have.

7 CHAIRPERSON NICHOLS: Thank you, Karen.

8 This is a very complicated proposal with a lot of
9 moving parts, and I'm sure we're going to be hearing a
10 mixture of different comments from those who have signed
11 up to testify here today.

12 I just want to emphasize that there is not enough
13 money in Prop. 1B to cover all the costs of compliance
14 with our clean air requirements. And it was never
15 intended to completely fulfill that need. But it's really
16 inspiring to see the impact that came about when the ports
17 in Los Angeles and Long Beach came up with extra money on
18 their own through a container fee, and added that to their
19 regulatory requirements and ours, and the money we were
20 able to put on the table. So we're now in a position to
21 have some access funds from the drayage trucks, which is
22 certainly not something we had ever expected to see.

23 But the demands for all the other categories that
24 we're talking about are huge, and the need is real. So
25 inevitably, I suppose there will be people disappointed on

1 all scores.

2 What I think has been done here though is a
3 really strong and creative effort to try to find ways both
4 through changing the regulations, and through redeployment
5 of funds in the different categories to cover more of the
6 need as it exists right now.

7 The other thing I want to say is that it is
8 important that we update these guidelines promptly,
9 because ARB has been very aggressive and very successful
10 in getting a share of all of the bond sales that the State
11 has been able to do ever since this program came into
12 existence. It's quite remarkable having had other
13 experiences in state government to see this is obviously
14 not just our work. We've had tremendous help and support
15 from the local districts and from the private sector in
16 putting together projects which could immediately put that
17 money to work once we had it. But it is important that we
18 keep our guidelines current.

19 So I just want to make sure we're all very aware
20 of the need to quickly deploy the moneys to continue the
21 tremendous progress that's been made in reducing health
22 risks from freight operations.

23 Are there any Board member questions before we
24 begin?

25 Yes.

1 BOARD MEMBER ROBERTS: If I could, help me
2 understand. The port trucks versus the non-port trucks,
3 these funds are not being completely merged. The port
4 trucks will still have a separate fund, competing sort of
5 with themselves as opposed to competing with all the other
6 trucks?

7 ASSISTANT DIVISION CHIEF MARVIN: Supervisor
8 Roberts, we're proposing a hybrid approach. For easier
9 implementation, we in the local agencies would administer
10 the funds as part of the single pot. But when drayage
11 trucks apply for funding, they would be competitively
12 ranked separately from the other trucks. So in a sense,
13 it's two subsets of funding. And the drayage trucks would
14 be eligible for that \$100 million of extra money in that
15 priority reserve first. If there is more drayage truck
16 demand than that, they would need to compete with the rest
17 of the trucks. But we think that 100 million is adequate
18 for the second phase upgrades.

19 BOARD MEMBER ROBERTS: Okay. One of my concerns
20 was, because it's very hard for them to compete openly
21 with the others. And if your expectation -- I guess based
22 on the first phase, 100 million should be pretty
23 significant in terms of being able to handle this. Okay.
24 That was my concern.

25 Let me ask one other thing. We're not covering

1 the retrofits and repowers. We're proposing ten percent
2 travel outside of California, while we're reducing the
3 grant amounts for those by \$10,000? We're not allowing
4 retrofits and repowers in that category?

5 ASSISTANT DIVISION CHIEF MARVIN: What we're
6 suggesting is that, yes, if the local agencies want to
7 offer the options for some travel outside of California
8 and the truck owner chooses to do that, that there would
9 be \$10,000 less in the grant.

10 BOARD MEMBER ROBERTS: Why are we reducing it by
11 \$10,000? With the Carl Moyer money, we allowed
12 significant travel outside of the state. There's no
13 penalty or GPS or anything required. I'm just wondering
14 why we're taking a position in one program and a
15 completely different position in another.

16 ASSISTANT DIVISION CHIEF MARVIN: The baseline
17 right now in the Prop. 1B program is 100 percent
18 California operation. So the funding levels that have
19 been established expect --

20 BOARD MEMBER ROBERTS: I'm not taking issue with
21 the ten percent. I think that's a good idea, because we
22 do have, in a lot of instances, trucks that are just
23 running across the state border or international border
24 and back, as you recognize. But the \$10,000 reduction I
25 guess is what I'm questioning. It's a pretty significant

1 reduction.

2 ASSISTANT DIVISION CHIEF MARVIN: What we looked
3 at was which trucks were likely to take advantage of that
4 opportunity to have travel outside the state. We thought
5 those were most likely to be new truck purchases that
6 would be eligible for a \$60,000 grant. So it's roughly a
7 \$10,000 reduction we're proposing off of the 60,000.

8 BOARD MEMBER ROBERTS: Okay. We can come back to
9 this. I want to make sure I understand it, because I'm
10 not sure -- I think this is something that came up after
11 your workshop, because we were just finding out about it.
12 And let me think about it. I'm concerned about that. And
13 it seems to be pretty inconsistent with what we've done in
14 other programs.

15 CHAIRPERSON NICHOLS: Well, clearly those who
16 live in or represent areas where there is a lot of outside
17 of California travel should be thinking about whether this
18 will really adequately deal with the needs they see.

19 BOARD MEMBER ROBERTS: Well, this is ten percent,
20 which is minimal in the fact it's going to be outside of
21 California. A lot of times it isn't very far outside of
22 California. If I remember, Carl Moyer uses up to 75
23 percent out-of-state travel.

24 CHAIRPERSON NICHOLS: Ms. D'Adamo.

25 BOARD MEMBER D'ADAMO: I just have a question

1 about surplus emissions, slide 14, estimated emission
2 reductions. How much of those are surplus emissions?

3 ASSISTANT DIVISION CHIEF MARVIN: Would you call
4 up slide 14?

5 These emissions reductions are over the whole
6 life of the project, as I believe Ms. D'Adamo's aware.
7 That project life sometimes extends beyond the time period
8 when the regulation requires those actions to be taken.
9 Most of the projects require both early reductions and
10 extra reductions. So by and large, the component of these
11 reductions that are surplus are anywhere from roughly
12 one-half to two-thirds of the total. When all of the
13 projects are into our database and have been funded, we
14 will go back and do an analysis for SIP purposes, and look
15 at exactly how much of that is surplus.

16 BOARD MEMBER D'ADAMO: Do you have a sense for
17 emission reduction by region? You know, if you go back
18 and look at the slide of percentage by region -- I think
19 it's one of the first ones you have -- are the emission
20 reduction commensurate with the percentages? Or are
21 certain regions getting a bigger bang for the buck?

22 ASSISTANT DIVISION CHIEF MARVIN: What I can tell
23 you is in the staff report, in the very back there is a
24 progress report that we submitted to the Department of
25 Finance that shows for each one of the grants what

1 reductions are expected. And we have totals by corridor.
2 For example, for the Central Valley, we're expecting
3 968,000 pounds of PM reductions and over 13 million pounds
4 of NOx reductions.

5 CHAIRPERSON NICHOLS: But you didn't attempt to
6 do a percentage calculation?

7 ASSISTANT DIVISION CHIEF MARVIN: No, we have not
8 done that, but we could certainly do that.

9 BOARD MEMBER D'ADAMO: Just curious. Thanks.

10 CHAIRPERSON NICHOLS: Yes, Dr. Telles. Welcome.

11 BOARD MEMBER TELLES: In regards to Mary's
12 initial comments that we have a long ways to go, slide 16,
13 I'm just wondering how far we are from the target, in the
14 sense that there's 18,000 trucks that are in compliance in
15 drayage trucks and there's 3,000 of which were updated by
16 1B. How many drayage trucks are there out there that
17 still need some work? And where are they located? What
18 region?

19 ASSISTANT DIVISION CHIEF MARVIN: Because the Air
20 Resources Board rule took effect on January 1st, all of
21 the trucks that are continuing to serve the ports and the
22 rail yards must either be in compliance -- in other words,
23 they've already made their upgrades -- or operating under
24 a temporary extension that ARB provided to allow time for
25 the grant moneys and the backups with the manufacturers to

1 deliver retrofits. So those temporary extensions expire
2 at the end of April. So by May 1st, the trucks will be
3 complying. What we're seeing is that there are more than
4 enough complying trucks available to carry the cargo to
5 and from the port.

6 CHAIRPERSON NICHOLS: Okay. I think we should
7 probably hear from the witnesses, unless there are further
8 Board member comments.

9 Our first witness is Rick McVaigh from the San
10 Joaquin Valley, followed by Dr. Wallerstein and Joseph
11 Steinberger.

12 Mr. MC VAIGH: I'm Rick McVaigh, Deputy Air
13 Pollution Control Officer for the San Joaquin Valley Air
14 Pollution Control District.

15 I'd like to start off by thanking ARB staff for
16 working closely with us and the other air districts in
17 developing the guideline updates that were presented
18 today.

19 In spite of some of the unfortunate delays in
20 funding, we're still looking forward to great success in
21 the Prop. 1B program as was presented earlier. For our
22 first year allocation, we had a \$38 million allocation for
23 the San Joaquin Valley, and we actually received 2400
24 applications for 135 million. So there's great demand for
25 these incentive funds. We were able to identify about 800

1 very cost-effective projects to receive the initial
2 funding. The projects are about three to five times more
3 cost effective than the third and fourth generations of
4 stationary source controls that we're imposing under our
5 SIP. So these are very cost-effective programs.

6 Our projections work for the San Joaquin Valley
7 for 5,000 tons of NOx reductions and 360 tons of lifetime
8 diesel particulate matter reductions from the first year
9 funding alone. So we see this as a great success.

10 Wanted to talk a little bit about the allocations
11 between the corridors. A couple years ago during
12 discussions prior to the first year allocations, we'd
13 recommended that SIP inventories actually be used in the
14 allocations. And the reason we wanted to use SIP
15 inventory is we thought that was most reflective of the
16 air quality challenges in the region. Instead, ARB chose
17 another option, which was to use the most up-to-date goods
18 movement inventories at this time. And those most
19 up-to-date inventories were the ones that were being
20 developed in conjunction with the on-road truck and bus
21 rule.

22 We understand that since that time your staff has
23 developed even newer and more updated emission inventory
24 numbers for goods movement based on 2007 truck emissions
25 in each of the four corridors, and those numbers are

1 currently being used in your reevaluation of the truck
2 rule that your Board began back in December. And we'd
3 also like to see those considered in future allocations
4 for Prop. 1B.

5 In order to kind of work towards that, we'd like
6 to request that you ask your staff to facilitate a
7 cooperative discussion between the staffs of the affected
8 district, which would mostly be us and South Coast,
9 regarding the use of the newest inventory data. And then
10 report back to your Board within a couple of months with a
11 report and a recommended direction on the use of the newer
12 more accurate data.

13 But overall we look forward to continuing to
14 partner with you on this great program and thank you very
15 much.

16 CHAIRPERSON NICHOLS: Thank you.

17 Dr. Wallerstein.

18 MR. WALLERSTEIN: Good morning, Chairman Nichols,
19 members of the Board.

20 Barry Wallerstein, Executive Officer of the South
21 Coast AQMD.

22 I'm here in support of the staff proposal this
23 morning and to frankly shower some praise on Board Member
24 Berg. She did a really marvelous job in helping bridge a
25 consensus on the staff proposal. And Cynthia Marvin of

1 your staff, the manager who has been working on this
2 project, has really worked hard in recent months to help
3 us make this one really shining star among many state
4 programs, especially related to bonds. We're delivering
5 product as the public expected when they voted in favor of
6 this.

7 The issue was just brought up about the
8 allocation formula. And I had hoped to stop my comments
9 frankly where I just finished, but I have to address this
10 issue of allocation. When we came before you initially,
11 we had an alternative method that was based on
12 populational exposure. People matter. Proximity matters.
13 The bulk of the populational exposure in the state as this
14 Board knows is in South Coast. We regret that we have the
15 highest ozone levels. We regret we have the highest
16 particulate level. We regret we have the highest air
17 toxic levels in the state. We regret that four of the
18 five highest risk rail yards are in South Coast.

19 Having said that, we're working with your
20 allocation formula. We're not here to ask for a change.
21 But we would object to a lowering of the amount of
22 allocation that our region receives.

23 And so we would ask that you proceed with the
24 amendments that are before you. We want to assure you
25 that we are working overtime to put that money to use.

1 There is pent up demand in South Coast for the funds, and
2 we will do our best to continue the delivery that you
3 expect on this program.

4 Lastly, if for any reason you were to consider a
5 change to the allocation formula, we would request that go
6 through an appropriate public process, including workshop,
7 public hearing noticing, and a CEQA document.

8 Finally, because we knew this issue of allocation
9 might come up today, yesterday we reached out to some of
10 the legislators from our region as well as some of the
11 members of Congress. You've received two letters, and
12 again we did this in less than 24 hours. The first one is
13 on letterhead from state Senator Lowenthal, and the second
14 one was circulated yesterday by Grace Napolitano, a
15 Congresswoman from our region. We would just ask you to
16 leave status quo on the allocation.

17 CHAIRPERSON NICHOLS: I don't normally interrupt
18 the flow of testimony, but since this has been teed up as
19 a South Coast versus San Joaquin issue, I just want to
20 comment that, you know, when we first began working on
21 this and adopted a formula that we did, every area of the
22 state had a legitimate reason to think they had not
23 received as much of a share as they should have. At the
24 end of the day, we adopted a formula which I know did not
25 make anybody completely happy, as I indicated.

1 I also am aware that the San Joaquin has a
2 historic belief that they have been treated less fairly
3 than others, and this seems to have continued. This issue
4 about the inventory as a basis for redoing the allocation
5 formula, to me, is not a very promising approach for the
6 simple reason that inventories change constantly. If you
7 want to do the SIP inventory versus the inventories we use
8 for other kinds of planning purposes, we would be at this
9 in a never-ending fashion. And the amount of shift that
10 would be likely to occur is not very great.

11 Having said that, there is also, clearly beyond
12 just people's feeling about these matters, there is a
13 reality that the San Joaquin Valley has I think a unique
14 hardship in the sense of having a larger number of small
15 and lower income operators than other areas do, although
16 this whole industry is characterized but very widespread,
17 as we've learned over the last few years.

18 And, you know, I think that it might be
19 appropriate for there to be conversations between these
20 two districts about whether there's any possibility of
21 developing some way of funding projects that would be of
22 greater benefit to the San Joaquin, which is a transit
23 corridor as we know and receives the benefits but also the
24 burdens of goods movement.

25 And, you know, my preference would be to see this

1 resolved outside of a legal regulatory process, and if at
2 all possible that there should be some -- develop some
3 kind of a proposal between the two districts that would be
4 mutually agreeable. Do you think there is a possibility
5 that that could happen?

6 MR. WALLERSTEIN: Chairman Nichols, if I could, I
7 would like to suggest an alternative, and that is that the
8 two air districts work together to increase the amount of
9 funding that comes to the state of California.

10 If we look at the federal DERA money, Diesel
11 Emission Reduction Program, we each get earmarks from
12 Washington, D.C., recognizing the significance of our air
13 quality problems in the Valley and in South Coast. My
14 staff was in D.C. last week. San Joaquin staff is in D.C.
15 this week. If we're going to really put our heads
16 together and try and come up with solutions, we ought to
17 be seeking additional funding rather than fighting over
18 the existing funding.

19 CHAIRPERSON NICHOLS: Well, that's a good
20 suggestion.

21 Other commenters wish to weigh in?

22 BOARD MEMBER TELLES: This is kind of about
23 health to me, and the inventories change, I know. But
24 also what changes is what happens in the community, and I
25 would say that the San Joaquin Valley's health has

1 deteriorated at a rapid rate over the last two years,
2 because of the economic downturn.

3 We have a population which is much more
4 vulnerable to air pollution than probably any place in the
5 state. If you look at any state health's statistics, we
6 have more diabetics, more hypertensive, more people with
7 coronary disease, more people with COPD per population
8 base than any place in the state.

9 And if we're going to play by the rules of having
10 an inventory deciding where the funding goes, to me, it
11 seems like we play by the rules all the time. And if the
12 inventory changes, that's basically a de facto change of
13 the rules, to me.

14 The inventory has changed a couple times.
15 Initially, it was the SIP and then the truck rule. Now
16 there is a new inventory being considered for something
17 else. I think that inventory should be used because that
18 was the initial plan. And it should be used by, also I
19 think, whoever it does benefit the most, fine. Let it be
20 that way. But if ARB is coming up with a new inventory,
21 that's the inventory that should be used.

22 MR. WALLERSTEIN: Chairman Nichols, would you
23 allow me to comment?

24 CHAIRPERSON NICHOLS: Yes.

25 MR. WALLERSTEIN: Dr. Telles, when the formula

1 came before this Board, we ultimately looked at the bottom
2 line as to what percentage would come to our region. As I
3 mentioned originally, we had an alternative formula we
4 thought was much more appropriate that frankly would have
5 provided a higher percentage to South Coast. But in the
6 spirit of cooperation, we agreed to the bottom line
7 number. So I don't know about the new truck inventory,
8 and I don't know which way the numbers would go, but we
9 think the current allocations as I said are appropriate.

10 I again want to point out that -- and I'm not
11 going to argue with the physician about percentage
12 statistics per population base. But I believe if you look
13 at the total number of individuals, because our population
14 basis is three or four times higher, even if our incident
15 rate is a little bit lower, the overall number of
16 individuals suffering respiratory illness in South Coast
17 due to air pollution is much greater than any place else
18 simply due to the population base, and as I mentioned
19 initially, proximity.

20 CHAIRPERSON NICHOLS: Ms. D'Adamo.

21 BOARD MEMBER D'ADAMO: I have a couple of
22 comments. I think that this situation is not all that
23 different to the situation we faced several years ago when
24 I first came on the Board. Quite a bit of conflict
25 between the Bay Area and the San Joaquin Valley.

1 And initially, I tried to make a difference when
2 the reports came before us periodically about transported
3 pollutants and the assignment of blame so to speak. And
4 with the help of Lynn Terry, she was able to convince me
5 that we could probably actually go a lot further if we
6 could work cooperatively -- if the Valley could work
7 cooperatively with the Bay Area and Sacramento. And we
8 formed a Committee -- I can't remember the name of the
9 Committee. I think it was North State Coordinating
10 Committee.

11 But the three districts got together and over a
12 period of time I think that we really did make a
13 difference. We were able to compare regulations between
14 the two districts and the districts work much better now.
15 And I think that we can do something similar in this
16 context.

17 I'm not interested in reopening it. I think that
18 the vote was pretty clear that the Valley does not have
19 the votes to make a change. But the issues remain.

20 I think that the Chairman did a good job of
21 outlining some of the ongoing concerns that the Valley
22 has. Unemployment is high. The recession has hit the
23 Valley more so than the rest of the state. And I would
24 welcome the opportunity to have the district sit down.
25 I'd be willing to participate, as well perhaps Mayor

1 Loveridge would be willing to participate, and see what we
2 can do to find some creative solutions, so that maybe the
3 money can work best in both districts looking for
4 additional projects that might provide benefits to both
5 corridors.

6 So I think that would be a better approach than
7 reopening the guidelines and going through the
8 percentages, because in the end, I think that it forces
9 extreme positions on both sides and may not accomplish
10 anything. May not change anything in the end anyway.

11 So my question to you is, would you and your
12 staff be willing to sit down and go through a process --

13 MR. WALLERSTEIN: As an Executive Officer, am I
14 going to come before the Air Board and say we wouldn't
15 have a meeting and sit down and work together? Of course,
16 we'll sit down.

17 And we've actually had one meeting previously
18 between our boards. We would welcome another meeting. I
19 think again there are broad issues where we should be
20 working better together. And I'd like to see us get past
21 this one.

22 BOARD MEMBER D'ADAMO: And I would concur that
23 getting past this one I think the result would be that the
24 districts would work together. Why have one district go
25 to Washington one week and the next district the next

1 week. Also opportunities for pulling together NGOs and
2 the private sector into a delegation that would seek
3 additional funds. I think that that would be the ultimate
4 goal, not just working out some changes with these
5 projects or how the formulas are allocated.

6 CHAIRPERSON NICHOLS: Your suggestion on that
7 point is well taken.

8 Ms. Riordan.

9 BOARD MEMBER RIORDAN: Just to add onto that, I
10 think you'll do very well at having some discussions.

11 But it did occur to me while you were all talking
12 that there are trucks that must go between the two
13 districts. And those trucks, I don't know where the
14 ownership is of the trucks that move up and down,
15 particularly the five. But there might be some
16 opportunities to work together on those kinds of trucks
17 and share in helping them to get some sort of improvement,
18 because they're going to help both districts. Thank you.

19 CHAIRPERSON NICHOLS: Other comments?

20 BOARD MEMBER ROBERTS: I just want to clarify. I
21 thought I heard that if we were to make any changes you
22 were making, those should go back to the public workshop?

23 MR. WALLERSTEIN: Yes. If there was to be any
24 changes in the allocation formula, since this was not
25 really brought up in the current process, it should go

1 through an appropriate public process.

2 BOARD MEMBER ROBERTS: The \$10,000 reduction has
3 not been aired in the workshop.

4 CHAIRPERSON NICHOLS: No. Haven't heard anybody
5 challenging that procedural issue here. I think the
6 problem with any change in the allocation formula --

7 BOARD MEMBER ROBERTS: I wasn't suggesting that.
8 I understand -- I'm not questioning the formula.

9 CHAIRPERSON NICHOLS: It's a good observation.

10 BOARD MEMBER ROBERTS: I'm looking for equity.
11 That's all.

12 CHAIRPERSON NICHOLS: Other comments here? Yes.

13 Dr. Telles.

14 BOARD MEMBER TELLES: Mrs. Riordan made a very
15 pertinent comment and suggestion to maximize efforts in
16 trucks that use both corridors. I don't know if that's
17 been done or coordinated. Maybe our Air Pollution Control
18 District office can tell us that.

19 I do know there is about 80,000 trucks that
20 travel through the San Joaquin Valley that just use it as
21 a conduit, and we don't get any economic benefit from
22 those trucks. But we certainly do get their air
23 pollution. Do you know if there is any coordinated effort
24 going on right now?

25 CHAIRPERSON NICHOLS: I might ask Ms. Marvin to

1 comment on this. Having been through several rounds of
2 this myself and many requests in between for extra effort,
3 one of the things that I think I've learned is that the
4 larger trucking companies and the firms that generally
5 travel the longest distances also tend to be the ones that
6 have the newest trucks. But maybe you can add a little
7 bit to that.

8 ASSISTANT DIVISION CHIEF MARVIN: Certainly.

9 This issue was raised by Ms. D'Adamo back in
10 February 2008 when the Board originally adopted the
11 guidelines. We did a quick analysis of the data we have,
12 because we anticipated the question would come up.

13 To say of the trucks that are being funded by
14 agencies and the different regions, how much of the travel
15 for those trucks happens in alternate regions. So I can
16 give you a couple of examples.

17 In the Bay Area, which has spent most of the
18 funding so far on drayage trucks, about 20 percent of the
19 travel for the trucks that have gotten grants from the Bay
20 Area happens within the Central Valley corridor.

21 Interestingly, the same thing is true for trucks
22 that have been funded by the San Joaquin Valley District.
23 About 80 percent of their travel is within the Central
24 Valley corridor. About 20 percent is within the Bay Area.

25 There's also some back and forth with the Los

1 Angeles area with the South Coast area. We don't have all
2 of the data for the trucks that have been funded in the
3 South Coast corridor, but we expect to get that within the
4 next couple months, and we expect to look at the through
5 traffic we were expecting from longer haul trucks funded
6 by South Coast but that transit up and down the Valley.
7 So there is definitely some of that going on.

8 And as more of the funding shifts from drayage
9 trucks to non-drayage trucks, we expect there to be more
10 of this longer distance travel where the trucks have to
11 pass through the Valley in order to get from one side of
12 the state to the other.

13 CHAIRPERSON NICHOLS: But those that are
14 traveling the longest distances tend to be those that have
15 better economic ability to adapt to the regulations that
16 are coming along also; isn't that right? In general.

17 ASSISTANT DIVISION CHIEF MARVIN: Generally, yes.
18 And we see that particularly with interstate fleets. When
19 you're looking at the fleet within California, at least
20 the fleets that are applying for Proposition 1B money,
21 we're seeing a mixture of middle-aged trucks that are
22 traveling longer distances, as well as the older trucks
23 that are more local.

24 The one thing I've learned in this process is
25 it's hard to make any generalizations that are true,

1 because there's really a broad mixture of different kinds
2 of projects and trucks and companies who own them.

3 BOARD MEMBER RIORDAN: And Madam Chair, they may
4 also be seasonal. I'm thinking of the Valley crops that
5 may come down into the central market in L.A. for
6 disbursal. And my hunch is those are older trucks.

7 But I know what you're talking about the big long
8 haul trucks. I'm thinking of the shorter haul that are
9 bringing in crops and things.

10 CHAIRPERSON NICHOLS: Well, we've now had a
11 significant airing of this issue. I think we need to move
12 on. But thank you very much. Appreciate your being here
13 today.

14 BOARD MEMBER D'ADAMO: If I may, when that data
15 comes out, I think that might be the time to get the
16 districts together, when we have more information. And if
17 staff could notify the districts at that point. And I
18 would like to be notified. I don't know if Dr. Telles.
19 Maybe Mayor Loveridge as well.

20 CHAIRPERSON NICHOLS: Okay. Mr. Steinberger from
21 Bay Area.

22 MR. STEINBERGER: Good morning, Chairperson
23 Nichols and members of the Board. My name is Joseph
24 Steinberger. I'm the principle planner with the Bay Area
25 Air Quality Management District. I've been overseeing the

1 goods movement program there. We are very happy to be
2 here this morning to provide our support to the staff's
3 proposed changes to the guidelines.

4 In regards to the changes, the district is very
5 supportive of many of the changes being proposed. Among
6 those that we strongly support are:

7 The merging the port drayage trucks and on-road
8 trucks into one category;

9 The reduction in California truck operations to
10 90 percent, and we've heard that even further reductions
11 would be appreciated, such as those for the Carl Moyer
12 program;

13 The increased funding for 2010 engine model year
14 trucks also the funding of retrofits that would decrease
15 NOx emissions to 2007 engine model years;

16 The streamlining of documentation for truck post
17 inspections and mileage determinations. We've determined
18 that's been a very large administrative burden for us. So
19 streamlining that would be greatly appreciated -- or will
20 be greatly appreciated.

21 Availability to fund fully electric yard
22 equipment;

23 Provisions allowing grantees to re-apply for
24 I-bond funding on a prorated basis.

25 And finally, we strongly support the reallocation

1 of the \$60,000,000 that could be used for cargo ships at
2 berth and also cargo handling equipment.

3 The district has been working with the Port of
4 Oakland very successfully in the first year of this
5 funding to reduce emissions surrounding the highly
6 impacted area around the Port of Oakland. So this would
7 help us continue that effort.

8 In regards to measures that we would like to see
9 possibly some changes to, we heard already this morning
10 that two-and-a-half of the eight that we came with have
11 already been addressed. So we're very happy to hear that.
12 The first of those was the ability to recoup our
13 administrative costs up front. We would like to request
14 100 percent. We've heard from staff that you're willing
15 to go 90 percent. So we're happy. If you go the other
16 ten percent, we would be even happier.

17 Also secondly is the use of AB 923 and AB 118
18 funds as matched, to be able to use those would be helpful
19 to give us the flexibility. Sometimes when the state bond
20 funding doesn't come through, these programs do. That
21 would allow us to do that.

22 Also to allow vouchers for grantees for trucks
23 and marine projects would be very helpful. Hopefully,
24 you'll look at that again.

25 Also to allow the districts to request 100

1 percent of the cost of projects upon obligation by our
2 Board. So once our Board approves projects on a list,
3 that we could recoup 100 percent of that. Otherwise, we
4 go out with contracts, and it makes it very difficult for
5 our legal team to stand behind those if the money doesn't
6 come through.

7 Three more items.

8 Allow I-bond money provided to projects to be
9 available for loan guarantees, allow shipping lines to do
10 shore side or ship side shore power.

11 Require companies providing lease-to-own services
12 to be pre-approved by the Air Resources Board. That's one
13 we heard that they will be doing, so we are very happy
14 about that.

15 And to reduce in-state operation of harbor craft
16 90 percent. That's another one we heard.

17 So thank you very much for the opportunity to
18 present our comments.

19 CHAIRPERSON NICHOLS: Thank you.

20 Omar Benjamin, followed by Richard Sinkoff and
21 Mike Jacobs. We're moving on to the ports.

22 MR. BENJAMIN: Good morning, Chair Nichols and
23 members of the Air Resources Board.

24 My name is Omar Benjamin, Executive Director of
25 the Port of Oakland.

1 I want to start out by thanking you and your
2 staff for working with us and our community and the air
3 district, the Regional Bay Area Air Quality District, in
4 improving our air quality. You know we passed a very
5 strict truck ban that's been working quite nicely, and you
6 recently helped us on the transition for truckers. So we
7 appreciate that.

8 We also appreciate that, working with your staff,
9 there has been improvement on the guidelines. But what
10 we're here to discuss and raise is that we believe that
11 there's still more work to be done. And we'd like your
12 help in directing your staff to improve the flexibility.
13 So we can submit a feasible application so we can achieve
14 the goal that we all set out to accomplish. The goal is
15 the same. The challenge is the game. The impact is the
16 same.

17 But the ports are not all the same. Although
18 we're a port, L.A. and Long Beach have greater resources.
19 And so that's where the challenge is and why we're asking
20 for flexibility in three particular areas. Please allow
21 greater flexibility in the match. As you know, to realize
22 shore power, it requires three basic elements:
23 Improvement on the land side, improvement relative to the
24 ships, and improvement on the terminal. And that involves
25 three basic partners: The carriers, the terminal

1 operators, the ports working with you, and the community,
2 et cetera. And so we feel that the investment in the work
3 that is being done by the carriers should qualify as a
4 credit, as a match, as an example.

5 The funding, it's important -- I think you've
6 heard from our colleagues at the air district that there
7 is a cash flow issue here. So we request that funding be
8 made available up front as an example.

9 And also to achieve the goal, we're already
10 challenged in meeting the deadline as it is, and that we
11 hope that you look towards the flexibility of the projects
12 that achieve the goal should qualify for funding as well.

13 And then lastly, in the flexibility, the
14 description of the project description. To realize
15 shore-side power, it's not just the work on the terminal.
16 We talked about work on the ships. But also there is a
17 lot of work and expense associated with bringing the power
18 from a substation to the terminal. And depending on the
19 Board, on the berth, and the cost and the scale, the
20 contamination of the site, that cost could vary. So we'd
21 ask additional flexibility of project description.

22 In turn, we thank you and hope you direct your
23 staff to work with us to create more flexibility so we can
24 submit a cost feasible application. Thank you.

25 CHAIRPERSON NICHOLS: Thank, sir.

1 Richard Sinkoff and Mike Jacobs and Tim Schott.

2 MR. SINKOFF: Good morning, Chairman Mary Nichols
3 and ARB members and staff of the ARB and members of the
4 public.

5 I'm Richard Sinkoff, the Port of Oakland Director
6 of Environmental Programs and Planning.

7 And I'm here also to express our appreciation to
8 the air district staff in reflecting the comments that the
9 Port of Oakland submitted in our letters of March 5th and
10 also March 24th. We especially appreciate the
11 reallocation of some of the truck funds, the 60 million
12 extra dollars to shore power, and also the reflection of
13 the particular cost at the Port of Oakland, our at-berth
14 costs which are different from the other ports so that we
15 can implement feasible project.

16 However, we do have some general comments. As
17 Executive Director Benjamin said, we feel that the
18 guidelines, particularly as they define eligible cost, are
19 simply not flexible enough. They do not reflect the
20 investments that are being made by our private sector
21 customers to build what is a public asset that serves
22 public health and the public interest. So we ask you
23 again to work very closely with us as we move forward on
24 our shore power program.

25 We do intend to submit an application. And we

1 really believe that working closely with the air district
2 staff we can submit a successful application that will
3 achieve the emission reductions goals that we all aspire
4 to and deliver emission reductions of public health to our
5 local community.

6 Thank you.

7 CHAIRPERSON NICHOLS: Thank you.

8 MR. JACOBS: Good morning, Madam Chairman and
9 Board members.

10 Mike Jacob, Vice President of Pacific Merchant
11 Shipping Association. We represent ocean carriers and
12 marine terminal operators that operate at all of
13 California public ports.

14 We're here essentially to restate what we've said
15 in our written submission to you, which you received this
16 morning. We've had a good working dialogue during the
17 workshop process and over the course of the last year with
18 staff. We appreciate many of the changes that they've
19 made and improvements to the guidelines.

20 However, our main point is that you really need
21 to look at considering the full \$325 million in project
22 costs that were submitted to you by the ports during the
23 workshop process for funding. We have a bit -- as you've
24 heard from both Mr. Sinkoff and Mr. Benjamin from the Port
25 of Oakland, we have a bit of a caesar's issue here. We

1 take some exception to the comments made by staff that
2 what's being asked for is 100 percent of the project costs
3 for cold ironing. That's far from the case. The total
4 project costs with cold ironing set by this Board and
5 estimated by the Board is \$1.8 billion. \$1.8 billion to
6 achieve the 2014 benchmarks. And that's a cost that for
7 good or ill our industry is striving to finance in the
8 face of losing 15 to \$20 billion in 2009 alone in ocean
9 carriage.

10 What we're asking you to consider is to invest
11 public money into the public assets that then facilitate
12 early and extra emissions beyond that 2014 baseline. So
13 for investing public money into an asset that's managed
14 for the benefit of the state, the ports managed
15 infrastructure owned for the benefit of the state of
16 California, you can receive from private industry the
17 benefit of early and extra emissions reductions if you
18 forward the money to the ports.

19 If you don't forward the money to the ports now
20 in an amount that's significant enough for them to feel
21 there's a commercial component to us that's successfully
22 implementable, which means you need to provide an
23 incentive for us to choose to provide additional emissions
24 to you above our 2014 baseline. And essentially what you
25 have in front of you is a deal. The deal is you can

1 provide the ports enough resources to come up with a way
2 to partner with us to provide earlier extra emission
3 reductions or you just get the regulatory baseline.

4 As regulators, I do not blame this Board and I
5 see exactly where you're coming from with saying, "That's
6 fine. We set a baseline. Let's let people work towards
7 that." But administrators of the Prop. 1B funds, we feel
8 that's unacceptable.

9 I'd like to summarize by saying when Prop. 1B was
10 passed and the California ports infrastructure investment
11 account was set up, it was set up specifically to fund
12 projects like this. We want to see this go forward. We'd
13 like to provide you with early and extra emissions. But
14 it only happens if the projects are feasible, and we don't
15 believe the projects are feasible, unless the public
16 portion of them is actually fully funded by public
17 dollars.

18 CHAIRPERSON NICHOLS: Thank you. Appreciate your
19 comments. They're well thought through.

20 Mr. Schott, and then we're going to turn to
21 Irvinder Dhanda and Lakhbir Bhambra.

22 MR. SCHOTT: Madam Chair and Board members, Tim
23 Schott on behalf of the California Association of Port
24 Authorities, which is comprised of the state's eleven
25 commercial publicly-owned ports.

1 Thank you for the opportunity to speak today.
2 Want to also thank your staff. We've worked closely with
3 them over the months and greatly appreciate what we
4 consider to be improvements that have taken place to the
5 program.

6 Much of what I was going to say has been said by
7 the last two speakers. But what I would like to do is
8 give you a tiny bit of Ports 101. I know many of you may
9 be familiar with the California ports system. But we have
10 a tendency in the public arena when we think of California
11 ports to think of Los Angeles, Long Beach which are mega
12 ports, some of the largest ports in the world, let alone
13 the nation or California. Approximately 90 percent of the
14 goods going into California go through L.A. and Long
15 Beach, perhaps eight to nine percent into Oakland, and the
16 remainder split between the eight niche ports that serve
17 local and regional markets.

18 This is very important to keep in mind, because
19 it speaks directly to available resources and feasibility
20 of projects. What may be feasible at one port is not
21 necessarily feasible at another port. And we want to
22 highlight this, remind you that California's ports are
23 public agencies holding land and trust for all of
24 Californians for the public interest. We believe that we
25 would see better use of some of those drayage truck funds

1 that are proposed to be re-allocated to other trucks stay
2 within port facilities to improve emission reductions in
3 the communities around California's ports. Thank you for
4 your time.

5 CHAIRPERSON NICHOLS: Thank you.

6 We're going to be moving on now to three people
7 who have listed themselves with NCPRTA. I don't recognize
8 the acronym. It's Irvinder Dhanda, Lakhbir Bhambra, and
9 Ed Juarez. Please come forward.

10 MR. DHANDA: Good morning, everybody. Thanks,
11 Mary Nichols and the Board, for this opportunity. I
12 represent Northern California Port Rail and Truckers
13 Association.

14 CHAIRPERSON NICHOLS: Thank you.

15 MR. DHANDA: Okay. The thing is we represent
16 about 1300 truck drives and owner-operators of the Port of
17 Oakland, and it's a nonprofit organization.

18 I just heard a little while ago, they said they
19 have enough trucks right now at the port, you know,
20 because it's a slow season. They do not enough trucks.
21 Coming in May when there's more import/export starts, we
22 will not have enough trucks.

23 And another thing is, you know, there was a lot
24 of drivers. They couldn't put their applications in,
25 because they were out of the county, they were denied, and

1 the funds will run out. So they didn't even take their
2 applications. And those people are out of job right now.
3 And, you know, it's very hard for them to support their
4 family.

5 And there is a lot of money still left. That
6 money should not go back -- like \$6 million, and that
7 should be distributed to the drivers and start taking new
8 applications for the people who couldn't apply, they were
9 out in the country or sick or something. Because what
10 happened is the timing limit was very short. And they
11 could not come to that time they were taking the
12 applications, and time was very short. So they couldn't
13 even apply. So we would really recommend, if you can
14 please start opening the applications again so those
15 truckers have the opportunity.

16 That's all I can say. And my partner is going to
17 tell you. Thank you very much.

18 CHAIRPERSON NICHOLS: Thank you.

19 Mr. Bhambra and Mr. Juarez.

20 MR. BHAMBRA: Good morning, everybody. My name
21 is Lakhbir Bhambra, and I represent also the
22 owner-operators they operate through the Port of Oakland
23 and rail yards.

24 Mayor of Oakland has been working on behalf of
25 this Truckers Association, and he has driven a letter

1 directly to Ms. Nichols, and also I wrote a letter. I
2 hope you got it. Only two issue are in here. The Port of
3 Oakland is telling you guys that they have enough trucks.
4 Comes to April 30th, the extension is over. See how many
5 people have done their retrofits. The contracts are not
6 through yet with Bay Area Air Quality Management District.
7 Nobody ever received a contract yet.

8 Your own people are approved to do the retrofit.
9 They are declining people. The people are put ahead to do
10 the financing. They don't want to do the financing due to
11 there is no equity in the trucks.

12 Bay Area Air Quality is telling us \$5,000 is
13 enough when originally granted the \$22 million come to the
14 first phase. People received 19,000 dollar each. It's
15 not fair giving us \$5,000. We tried to get \$8,000 each
16 from the federal government. Federal government declined
17 telling us, telling the mayor, why you need the money when
18 there is \$6 million sitting in the State funds. What
19 emergencies is there that we should fund?

20 Therefore, Bay Area Air Quality telling your
21 department take the six million back. But we are in
22 opposition of that. And we are asking your support in
23 that not to send that \$6 million. Those people have
24 already qualified for \$5,000. They should be given that
25 \$6 million so they don't have to carry the burden of the

1 loan and make the payments every month. That's a request.

2 And please see very carefully Mayor Dellum's
3 letter and our letter. This is his city. I think he's
4 the main person. He's telling the right thing to do.

5 We will have better government. And we need this
6 funding if can be unrestricted to replacement instead of
7 doing the retrofit. Retrofit is not working. And plus we
8 have to waste lot of time to do the retrofit when we can
9 move onto buy the newer truck with that money by putting a
10 down payment in ours. And we have the newer truck with
11 less problem, then we can replace the truck when the time
12 come in 2014 to replacement with 2008 truck. At that
13 time, 2008 truck fully equipped will be 20 to 30,000
14 range.

15 Thank you very much.

16 CHAIRPERSON NICHOLS: Mr. Juarez.

17 MR. JUAREZ: Good morning, everybody. Thank you
18 for giving us the opportunity to speak at this meeting.

19 I'm with the NCP also. Thank you. I'm
20 representing Aquatis (phonetic) Trucking.

21 And I just want to follow up with what he said.
22 And we have an issue with like 400 of the 660 drivers
23 apply for the \$5,000 funding with the Bay Area AQMD. And
24 we have like 400 people. They put a thousand dollar to
25 deposit in December towards the filter and a few applied

1 for replaced truck to get a 2006 truck. But for the lack
2 of credit, it was denied with the replace the trucks. And
3 now they facing the retrofits. They say a thousand
4 dollars is not enough to order the filter. And now the
5 vendors -- they wait to get the money to the vendors to
6 order the filter. But Cascade Sierra wait for the Bay
7 Area to release the \$5,000 so looking they hold. So I
8 understand those people, they put a thousand dollars,
9 they're not going to get the extension to June.

10 And I just want to ask you please give us the
11 opportunity to stay in the pipeline and get another
12 two-month extension like the others, because we need more
13 time. And we appreciate your consideration of this and
14 thank you very much for your attention.

15 CHAIRPERSON NICHOLS: Thank you. We could stop
16 and address this issue right now or wait until the end.
17 I think we'll wait. This is one I would like to hear from
18 staff on.

19 Todd Campbell and Randall Friedman and Shankar
20 Prasad.

21 MR. CAMPBELL: Good morning, Madam Chair and
22 members of the Board.

23 Todd Campbell, Policy Director for the -- oh,
24 gosh. I almost said Clean Air. Clean Energy. That was
25 in a former life.

1 I want to say that we support Prop. 1B and the
2 intent and goals this program sets out to achieve. We
3 think it's done a tremendous job, and we're proud that we
4 have 600 trucks as part of the program, achieving some of
5 the most stringent emissions standards to date by this
6 agency and federal government, as well as reducing
7 greenhouse gases up to 23 percent with our product. And
8 so we're very appreciative of the efforts and hard work
9 especially Board Member Berg has done.

10 But we're also very supportive of the amendments
11 to include other state funds that advance greenhouse gas
12 goals. As you know, Clean Energy is a strong supporter of
13 AB 32, and we thank you for your leadership on those
14 issues.

15 Some of the concerns that we do have that we'd
16 like to raise with you deal with -- to do with the drayage
17 to non-drayage issue. I would say Ms. Marvin had
18 mentioned most of these ports are requiring newer trucks
19 to enter the gates. But I would also highlight the fact
20 that there are issues with older trucks meeting newer
21 trucks that get in the gates, pull out the goods, and then
22 meet them outside the gates to take those goods to other
23 destinations.

24 So in some cases, the pollution issue actually
25 has only moved about a couple 100 yards. And that is a

1 big problem. So we're discouraged about drayage competing
2 with non-drayage trucks. Because as you know, drayage
3 trucks don't have the miles, and they can't compete. That
4 is a big issue. And we want to encourage those drayage
5 trucks, all of them, to convert to cleaner modes of
6 operation.

7 The other issue that we're concerned about is
8 we're funding, in some program proposals, 2007 emission
9 projects as opposed to 2010 projects when we're in 2010.
10 And certainly we believe that your intent is to push us to
11 2010 and beyond emission levels for criteria air
12 emissions. We would have liked to have seen the
13 categories not ease those emission standards and continue
14 to propose or move forward with the toughest emission
15 standards, which is the 2010 emission standards. And
16 that's it.

17 We do not believe also that the use of FELs
18 should be allowed for compliance under 2010 emission
19 projects. Certainly, we had, for example, our own product
20 has met the 2010 certification level for three years now.
21 So there has been product that has been available in the
22 marketplace, and we should continue to support that type
23 of product over products that do not meet 2010 emission
24 levels on their own merit.

25 And finally, we believe it's high time to

1 eliminate PM retrofits from the program. We realize this
2 probably is not a reality today. But in the future, we
3 would argue that we should be requiring PM retrofits
4 without 30-year bond subsidies.

5 Thank you.

6 CHAIRPERSON NICHOLS: All right. Thank you.

7 Randal Friedman and then Shankar Prasad and Sean Edgar.

8 MR. FRIEDMAN: Madam Chair, let me start with an
9 apology for late testimony between a New York Times
10 article on Tuesday and listening to this, I was actually
11 here for AB 32. But I've had one of those great moments
12 of clarity tying several issues together. And it involves
13 irony.

14 And I'm here on behalf of the U.S. Navy.

15 To me, the irony is at a time when you have
16 50 percent of the ships going in and out of the ports of
17 L.A. and Long Beach, noncomplying, and avoiding compliance
18 with your sulfur rule and adding perhaps as much as 15
19 tons per day of NOx because of that noncompliance, you're
20 now here looking to hand out several hundred million
21 dollars of taxpayer money to reduce the same NOx that
22 these ships are adding to the inventory because of their
23 noncompliance.

24 Now, the New York Times article has put this all
25 out in the public now, and it has raised a couple of other

1 interesting points. And that is I've spoken for several
2 years about the military issues with this noncompliance,
3 but the head of the marine exchange in Southern California
4 said in the New York Times that this noncompliance has now
5 resulted in a far greater risk of ship collision.

6 Well, when you have laden oil tankers and
7 container ships out in national marine sanctuaries, there
8 is a significant environmental risk from this risk of ship
9 collision.

10 Also, three weeks ago, unfortunately, there was
11 the first victim of this avoidance, and that was a 42-foot
12 whale washed ashore at the Santa Cruz Island. The
13 National Marine Fisheries Association has listed the
14 probable cause a ship strike. The only way a ship strike
15 can occur in that area is from one of the ships that is
16 avoiding the ARB rule.

17 So I have a simple and bold proposal for you to
18 think about. And that is, why don't you tie the \$700
19 million of public money to compliance with your low-sulfur
20 rule? Why don't you tell the ports -- why don't you tell
21 the shipping lines if they want to access this public
22 money, they need to demonstrate compliance with your rules
23 instead of avoiding them. You have a several hundred
24 million dollar carrot you're going to vote on today. I'm
25 not sure you fully recognize it for the carrot that it is.

1 I think that at minimum, since you don't have enough money
2 to fund everything, you should give some very strong
3 incentives for shipping companies and ports that would
4 agree to comply with your rules.

5 As it is now, the air is getting worse. The
6 national security is being impacted. There is an increase
7 of oil spill. And there's also potentially been one whale
8 that's a victim of this avoidance. You have the ability
9 today to try to do something about and that I would urge
10 you to consider that.

11 And again my apologies for bringing this up late.
12 I urge you to look at that New York Times article from
13 Tuesday, and consider the extremity of this issue is
14 starting to get more in the public focus.

15 Thank you. And I'm here for any questions.

16 CHAIRPERSON NICHOLS: Thank you, Mr. Friedman.

17 Shankar, Sean Edgar, Bonnie Holmes-Gen, and Tim
18 Carmichael. And that will conclude the presentations.

19 MR. PRASAD: Good morning, Chairman Nichols and
20 members of the Board. It's a pleasure to be here.

21 And thank you Board Member Sandra Berg and staff
22 for the excellent cooperation, and working with the
23 stakeholders to arrive at this staff recommendation.

24 You have a letter from seven groups signed which
25 clearly supports the staff recommendations and

1 modifications suggested today.

2 We are in support of combining the multiple
3 funding sources. One concern we have is the issue of
4 these violations. So we strongly urge the Board to direct
5 the staff to look into the audit provisions, enforcement
6 provisions, and to take that piece of the action as this
7 moves forward.

8 Thank you very much.

9 CHAIRPERSON NICHOLS: Thank you.

10 Mr. Edgar.

11 MR. EDGAR: Good morning, Chairman Nichols and
12 Board members.

13 Sean Edgar, Executive Director of the Clean
14 Fleets Coalition, an association of both nonprofit
15 associations and for-profit associations and private
16 carriers. I'm also a member of the TRAC Committee. And I
17 appreciate Ms. Marvin and 1B staff coming to our last
18 meeting and giving a good rundown for the TRAC Committee
19 members on the progress that they're making today, as well
20 as hopefully in early action for the truck and bus rule.

21 I'll offer a few words of support and then
22 conclude with a few words of caution.

23 On the positive side, I think staff is doing a
24 good job to reduce the weight limit to bring more trucks
25 down to 31,000 pounds gross vehicle weight rating into the

1 program. I think that can only be helpful. Combining
2 federal and local sources of funding is also I think a
3 very positive step. And I'll join with Mr. Wallerstein on
4 increasing the size of the pie. To the extent that our
5 associations can help increase the size of the pie, we'd
6 be happy to do that.

7 There are a few words of caution on moving
8 forward. The concept that was expressed in the staff
9 report about sending older trucks from California up to
10 Washington State, I think that needs a little bit of work.
11 I think, if anything, the Board should look at rolling
12 back the value of that older truck into the dismantler
13 relationship or the relationship, the applicant, if you
14 will, I think sending the vehicles out of state to benefit
15 out of state is not consistent with the program. That
16 concept needs work.

17 As much as reducing the award for a 2007 engine,
18 I'll disagree with my friend Mr. Campbell that while I
19 will agree with Dodd and others that the 2010 engine
20 availability is a good thing, I think that cutting the
21 amount of award for 2007 engines makes it less feasible
22 for folks to do that who may not be able to afford the
23 step change to get to the gold standard if you will.

24 Similarly, the RFP, the staff report talked about
25 a potential RFP for a small business loan program, and

1 that's a good thing.

2 And I'll just caution the staff report seemed to
3 be leaning towards nonprofits as a better way. I work for
4 nonprofits and there's some things that we do well and
5 other things we may not do well. So I'd caution you as
6 you go forward to make sure you set a very high bar.
7 There may be things that for-profit entities, with regard
8 to financing programs, can do as well or better than
9 nonprofits.

10 Mr. Friedman indicated there should be a --
11 similar to his commentary, there are existing bad actor
12 provisions in your loan program under 1B for truck owners.
13 It would only seem equitable that the bad actor provisions
14 would apply to anybody who would, a, run your grant
15 program, or b, as Mr. Friedman was indicating for his
16 particular interest, ask for 1B funds from another source
17 category.

18 Finally, on the allocation issue, I'll just join
19 to say we're interested to collaborate with staff and the
20 districts on that issue. In my mind, the \$760 million in
21 the program should be all about trucks, trucks, trucks.
22 So as we get into allocation, I would dissuade diverting
23 to other source categories, and we're interested in
24 continuing to work with your staff.

25 Thank you.

1 CHAIRPERSON NICHOLS: Thank you.

2 Bonnie Holmes-Gen and then Tim Carmichael will be
3 our last speaker.

4 MS. HOLMES-GEN: Good morning, Chairman Nichols
5 and Board members. Bonnie Homes-Gen with the American
6 Lung Association of California.

7 And we signed onto the letter mentioned by Mr.
8 Prasad with seven other groups in support of these
9 guidelines. We believe that these guidelines are very
10 important to expand the use and accessibility of the 1B
11 program funds, and we agree with your comments on the need
12 to get these funds out quickly, get these guidelines past
13 so we can take advantage of the bond sales and move on to
14 achieve the early PM reductions and the health benefits
15 and support the implementation of critical rules such as
16 the on-road regulation.

17 And of course these funds are becoming more
18 important in the current economic downturn. And we
19 appreciate the Board's work and the staff's work to ensure
20 that the funding is allocated efficiently so we can have
21 maximum opportunities to get cleaner vehicles and engines
22 deployed.

23 Want to comment that we appreciate the change
24 that will allow better coordination of funding between
25 programs to achieve criteria pollutant and greenhouse gas

1 goals. And we're glad to hear that staff plans to work on
2 better incorporation of the air quality benefits from
3 alternative fuels vehicles into the funding
4 considerations, and we look forward to working on these
5 changes.

6 We agree with the ongoing priorities for funding
7 in terms of funding trucks, the next phase of port trucks,
8 shore power, and locomotives.

9 And the one concern that we expressed in the
10 letter with other groups is that the ARB should retain the
11 two-year registration requirement to become eligible for
12 the funds. We again have greatly appreciated the process
13 staff has taken in engaging with stakeholders and the
14 personal engagement of Board Member Berg. We appreciate
15 that and look forward to continuing to work with you in
16 the next round.

17 CHAIRPERSON NICHOLS: Thank you.

18 Mr. Carmichael, it's been a long time.

19 MR. CARMICHAEL: Thank you very much. Doesn't
20 seem quite that long. Chair Nichols, members of the
21 Board, it's good to be back.

22 I'm actually back wearing a different hat I'm.
23 Representing the California Natural Gas Vehicle Coalition.
24 Some of you know Pete Price who's been representing them.
25 He's moving on to a new adventure. And I'm looking

1 forward to working with the Board and staff again.

2 CHAIRPERSON NICHOLS: He's actually moving on to
3 an old venture. He's going back into the capitol.

4 MR. CARMICHAEL: That's true.

5 So the California Natural Gas Vehicle Coalition
6 has more than 20 members, companies around the state and
7 around the country, working to advance natural gas as a
8 transportation alternative, heavy duty and light duty.

9 We support AB 32. And we'll continue to support
10 AB 32 and hope you'll call upon us when you're looking for
11 business support for that.

12 We support Prop. 1B and this program in general.
13 We're happy to see the change allowing combining of funds.
14 You may recall that we were among the groups that wanted
15 that from day one. So this is a good change.

16 Mr. Campbell covered some of our concerns. I
17 just want to touch on those. It does matter a lot where
18 the funding goes and where the equipment is being used.
19 That's why it's a big deal for our members that drayage
20 trucks be given a fair shake. It's one thing to say
21 they're going to be able to compete. It's another thing
22 to look into the details and say can they really compete
23 if the lower mileage effectively puts them out of the
24 competition. And if you don't make a change to address
25 this today, at a minimum, we encourage you to track this

1 closely and see if we're right, if there is a drop-off in
2 the applications and the funding going to these trucks,
3 because you'll hear from all sorts of advocates that
4 that's a very important piece of the pollution puzzle in
5 protecting community health in our state.

6 On the traps, it shouldn't surprise you we think
7 traps is a short-term strategy and funding new vehicles,
8 new engines is a longer term strategy. And we would
9 encourage more of the funding if not all of the funding
10 going to that, and less eliminating the funding to the
11 traps.

12 And finally, on the 2010 versus 2007, I think a
13 couple people have commented on this. We are in 2010.
14 And ARB needs to be pushing the threshold. It feels like
15 2007 came and went very quickly. But we feel like the
16 proposal before you today for updating accommodates
17 engines that are really just getting to 2007, and helping
18 them make modifications or adding on equipment to get to
19 2007, when really we should be pushing 2007 standards and
20 beyond.

21 Thank you very much. Look forward to working
22 with you all again.

23 CHAIRPERSON NICHOLS: As far as I know, that
24 concludes everybody who wanted to testify on this item.
25 So we should draw this back to a close.

1 And I'll just ask, we don't have a formal record
2 closing, because it's not a regulation. But if the staff
3 has any additional comments on based on what you heard, I
4 would like you to briefly address Ms. Marvin. I know you
5 have spent many hours on the issue about the drivers at
6 the Port of Oakland.

7 I'm not sure if all the Board members are really
8 aware of how heroically she has spent her Christmas
9 vacation, New Years Eve, and other holidays that might
10 have been holidays for other people trying to deal with
11 this problem. So if you would conclude or at least talk
12 about that, and then maybe we'll have some other questions
13 from the Board.

14 ASSISTANT DIVISION CHIEF MARVIN: Certainly.
15 Thank you, Chairman Nichols.

16 We have been very involved in the joint need
17 within Oakland to help truckers, many of whom are
18 independents or small businesses, upgrade their trucks to
19 meet ARB's regulatory requirements. And we're aware of
20 some of the special economic challenges.

21 There is a grant that the Bay Area district
22 implemented to help truckers upgrade Port of Oakland
23 trucks. What happened was that the demand for the funding
24 was greater than the supply. The district had combined
25 its own funds and port funds as well, but they still ran

1 out of money. And on News Year Eve, the State made
2 available additional funding to help those folks who had
3 tried to get grant money before the compliance date of
4 January 1 of this year.

5 And so what we did was say there is additional
6 dollars that can be used for people who applied for money
7 in 2008 or 2009, and the terms and conditions would be the
8 same for people who would be able to loop back as they
9 have been for everyone else in the state. By that I mean
10 if you want to put a PM retrofit on your port truck, those
11 truckers were eligible for the same \$5,000 grant that
12 Prop. 1B offered drayage truckers and other truckers
13 elsewhere in the state.

14 So what we did was say that those who had
15 previously applied and been denied were eligible to come
16 back in and indicate interest in this supplemental pot of
17 money. We worked closely with the Bay Area district to
18 try and identify the milestones to get additional trucks
19 into the grant process. And the time frames were short,
20 but they were also well publicized.

21 The issue was trying to get truckers back into
22 the grant process to get them, to indicate interest, to
23 get them to line up supplemental financing and sign
24 contracts in time so their equipment could be ordered and
25 their trucks could be complying in early '20, because

1 these trucks are operating under extensions right now.

2 We're past the compliance date.

3 So the money that ARB made available had very
4 specific conditions on it. And the key things are that it
5 was only available for those who tried to get grant
6 funding before the compliance date to achieve early
7 emission reductions.

8 The second thing is that it's available at the
9 same levels that we offered to every other truck in the
10 state. In other words, we were not proposing that
11 truckers at the Port of Oakland be eligible for a greater
12 subsidy than every other trucker who took advantage of the
13 Prop. 1B program. And there are roughly 660 trucks that
14 came back in to take advantage of these supplemental
15 grants and that are going through that process right now.
16 And we're working closely with the Bay Area district to
17 get them through the process as they're signing contracts.
18 We've also been working with the district to make sure
19 that those retrofits are ordered and that there's time for
20 those retrofits to be delivered.

21 It's a messy process. I don't know how else to
22 say that. And we are doing our best with both the
23 district and also with the retrofit manufacturers and the
24 installers to try to make sure that product is delivered
25 as quickly as humanly possible so that it can be installed

1 on the trucks. So that we get the public health benefits
2 that the Board and the community in Oakland was expecting,
3 and we also get the opportunity to use those grants under
4 the conditions that the Board prescribed.

5 That was kind of a long response.

6 CHAIRPERSON NICHOLS: I think it explains the
7 situation though fairly.

8 Others? We've heard testimony generally
9 supportive with some specific proposals for change.
10 Anybody want to put a resolution forward now and then we
11 can work on that.

12 CHAIRPERSON NICHOLS: I think Supervisor Roberts
13 had an issue.

14 BOARD MEMBER ROBERTS: I think we all like to say
15 we're unique, and in many respects every area is different
16 in this, has different issues that it has to deal with.

17 We probably are singularly the only one that's
18 dealing with the border, which we call a land port. And
19 so the world looks different to you. And I guess I'm
20 concerned -- I'm not asking for any favoritism or
21 anything, but why -- we shouldn't be putting a discount on
22 the grants that could be used in this area because they're
23 going to have to cross the border. We have businesses
24 that straddle that border for all intents and purposes.
25 And if there were a restriction and you couldn't go so

1 many miles across it or something else, we wouldn't have a
2 problem about that.

3 But to all of a sudden come up with something
4 that is going to be 10,000 less, and you have to have a
5 GPS, and there's no retrofits or repowers, it just --

6 CHAIRPERSON NICHOLS: I have some questions about
7 that as well frankly. So maybe we could ask staff if they
8 are open to change on this, and what you think the adverse
9 consequences would be if we were to eliminate some of the
10 restrictions you've proposed.

11 ASSISTANT DIVISION CHIEF MARVIN: Certainly.

12 The intention of the 90 percent California
13 operation option was really designed in response to the
14 data that a number of trucking firms provided to us about
15 their travel, their short trips across the border to
16 Mexico, Arizona, and Nevada. If you remember, can you
17 pull up that slide that has California operation on it?

18 When we talked to a number of the trucking firms
19 that routinely make trips from California to warehouse and
20 distribution centers right over the borders in all three
21 of those areas, what they told us was about four, five, or
22 six percent of their miles would be outside of California.
23 So we looked at that and said, all right, if we set it at
24 ten percent, that should be adequate to cover these trucks
25 that are essentially -- they're California-based trucks

1 and they drive almost all their miles in California, but
2 for the small trips on the other side of the border. So
3 that was the population that we were recommending that the
4 Board be allowed to be eligible for.

5 CHAIRPERSON NICHOLS: And I don't have -- I'm not
6 questioning that, that part of it, because I know the
7 number is something less than ten percent. It's not a
8 significant amount. And the fact is they're not even --
9 they may be crossing the border, but they're not leaving
10 the air basin. They're still in our air basin.

11 What I was questioning was for those, we reducing
12 are the grants by 10,000, if I understand the latest
13 recommendation.

14 ASSISTANT DIVISION CHIEF MARVIN: What we were
15 trying to do was recognize that if some of the benefits of
16 the California taxpayers' investment in these trucks would
17 not be realized within California, then some of the level
18 of funding that's used should be less.

19 We chose to propose a flat \$10,000 to try to keep
20 thing simple in the program so there were fewer different
21 funding levels for all of the different options. I think
22 that the change that we --

23 BOARD MEMBER ROBERTS: That's why I tried to
24 point out to you that the Carl Moyer allows substantial
25 travel out of the state without a penalty, without a GPS.

1 But all of a sudden, for this, it's a minuscule amount.

2 We're lowering the grants.

3 CHAIRPERSON NICHOLS: I think the easiest way to
4 deal with this, since these projects do end up competing
5 against other projects would be to just strike the 10,000
6 and the GPS provision, leave it at 90 percent of
7 operations.

8 BOARD MEMBER ROBERTS: Yeah, because I think it's
9 probably for us at least -- it may be five percent. It's
10 a relatively small number, and it just concerns me. And I
11 didn't mind that part of it.

12 What I'm objecting to is along with that we're
13 making a substantial reduction of the grant.

14 CHAIRPERSON NICHOLS: For ease of operation in
15 one person's eyes is arbitrary in another person's eyes.
16 So if the rest of the Board is willing to consider that as
17 a change, I would endorse that as an amendment to the
18 resolution. I don't see any major disagreement.

19 BOARD MEMBER TELLES: I have a question on this,
20 and it doesn't have anything to do with the ports.

21 Are all these trucking companies based in
22 California or --

23 BOARD MEMBER ROBERTS: Yeah.

24 BOARD MEMBER TELLES: This doesn't fund --

25 CHAIRPERSON NICHOLS: You can't get an award if

1 you're not a California-based company. And the trucks
2 have to be registered in California.

3 Okay. Questions or issues? Yes.

4 BOARD MEMBER D'ADAMO: I just had a couple
5 questions about enforcement. Todd Campbell's concern that
6 he raised about noncompliant drayage trucks outside the
7 port, does staff have a response to that? I'm not aware
8 of that problem.

9 And also just curious about staff's response to
10 the suggestion made by Mr. Friedman from the U.S. Navy
11 about noncompliant cargo ships with regard to sulfur.

12 ASSISTANT DIVISION CHIEF MARVIN: On the first
13 issue about the concern of cleaner trucks going into the
14 port, picking up or dropping off loads or picking up a
15 load, coming outside the port, and then transferring it to
16 a dirtier truck, that is something that happens
17 occasionally. It's something that we are concerned about.
18 But it's not something that's prohibited by ARB's drayage
19 truck regulation. So it's legal.

20 The issue is that this is clearly not the intent
21 of the Board's rule. We want to be cleaning up the
22 communities around the ports and the rail yards. And so
23 one of the things that we can do and are doing is using
24 our enforcement authority, our general enforcement
25 authority for trucks, to be looking for cases where this

1 is happening and making sure that any other trucks that
2 are coming in meet every other one of ARB's requirements.
3 So there is no excess smoke. There's an engine label on
4 it. There's no excess idling. They're doing their fleet
5 inspections. So all of the other resources or
6 requirements that we can bring to bear, that's the tool
7 that we're using to try to discourage this practice.

8 BOARD MEMBER D'ADAMO: Can you provide that
9 information to the ports and maybe get the ports to -- I
10 mean, it's not consistent with their intention either I
11 would imagine.

12 ASSISTANT DIVISION CHIEF MARVIN: We certainly
13 have talked to the ports about that, and we'll work with
14 them further.

15 The second issue you raised in terms of the
16 noncompliant ships, right now, the funding that is
17 available to support shore power for ships is only
18 available for the land side. So the shippers themselves
19 are not getting any of those dollars. So it would be
20 difficult to tie those dollars to compliance with the ship
21 regulations. I don't know if Mr. Fletcher wants to add
22 anything.

23 STATIONARY SOURCE DIVISION CHIEF FLETCHER: Well,
24 the issue that Mr. Friedman raised is one that we're
25 paying a lot of attention to now. They are in compliance

1 with the regulation; they are just choosing to go further
2 out from the shore so they're basically avoiding the 24
3 nautical mile requirement.

4 So there are a lot of complexities associated
5 with this. We're working with the Marine Exchange,
6 working the Navy, working with the ports to see if we can
7 come up with a solution.

8 Would point out that U.S. EPA is looking at a 200
9 nautical mile requirement that kicks in in 2015 or
10 something like that. So it may be a short term issue for
11 us, but it is one that we are spending some attention to.

12 CHAIRPERSON NICHOLS: We're certainly looking for
13 ways to increase the level of compliance with our rule as
14 it was intended and to get ships not to be interfering
15 with the Navy's operations.

16 So I would strongly encourage looking at any
17 legal way that we could link funding to compliance. I
18 don't know if we've completely thought through what might
19 be available out there. But certainly for the shore power
20 funding, the individual shippers are involved in the
21 operation of the berths, as I understand it, and there is
22 a public/private split there. And they are putting up a
23 fair amount of money; no question about it. But the ports
24 are seeking obviously a bigger public investment.

25 And I understand the point that the PMSA is

1 making in this regard. And I'd like to have more money
2 available for this operation as well. I think we all see
3 that the ports are increasingly emerging in people's minds
4 as the major economic engines that they've always been.
5 But it hasn't been so apparent until recent years to most
6 of the public how important they are. And if we could
7 find ways to access some additional funding in the Prop.
8 1B funds that come to us, as everybody knows, a small
9 piece of what was out there in the goods movement bond, I
10 would love to find a way to do that as well.

11 So I'd like ask for a motion on the resolution.
12 Oh, you have one more comment.

13 BOARD MEMBER BERG: I'd like to also move for
14 you.

15 But just in following up on your comment on the
16 ports, are we comfortable that we have provided or have
17 looked at the flexibility that the ports did bring up on
18 understanding that there are three stakeholders and how
19 the matching funds are available and so forth?

20 I would encourage that we continue to work with
21 the ports to make sure that we have an understanding of
22 the infrastructure that needs to be put into place and so
23 forth and that we're helping them maximize -- we're
24 creating the flexibility that helps them maximize to get
25 the job done.

1 And with that, Chairman, I would like to move
2 Board Item 10-3-3.

3 CHAIRPERSON NICHOLS: Thank you. Do we have a
4 second?

5 BOARD MEMBER D'ADAMO: Second.

6 BOARD MEMBER BERG: With the amendment --

7 CHAIRPERSON NICHOLS: To strike the language
8 limiting what could be done with the trucks that cross the
9 border. Okay.

10 Any other comments?

11 We do have a motion and a second.

12 If not, I think we can do this on a voice vote.

13 All in favor, please say aye.

14 (Ayes)

15 CHAIRPERSON NICHOLS: Any opposition or
16 abstentions?

17 Okay. Thank you very much.

18 The next agenda item is 10-3-4. And we're going
19 to be considering proposed near-term revisions to the
20 Lower Emission School Bus Program guidelines and the Carl
21 Moyer Incentive Program guidelines.

22 Since its inception, the Carl Moyer Program has
23 filled a critical niche in California's strategy to
24 achieve clean air by providing individuals with financial
25 incentives to voluntarily purchase cleaner engines and

1 technologies. This incentive program complements
2 California's regulatory program by funding emissions
3 reductions that are surplus to what is required by
4 regulation.

5 Since 1998, the Carl Moyer Program has cleaned up
6 over 17,700 engines throughout California, reducing
7 smog-forming emissions by about 41 tons per day and diesel
8 particulate emissions by about one-and-a-half tons per
9 day.

10 The success of the Carl Moyer Program has paved
11 the way for other incentive programs, such as the
12 Lower-Emission School Bus Program. Since 2001, the
13 Lower-Emission School Bus Program has protected vulnerable
14 populations, particularly California's school children,
15 from the harmful effects of air pollution through the
16 replacement of older school buses and the installation of
17 retrofits on existing school buses. Over 600 old buses
18 have been replaced and 3,800 other buses have been
19 equipped with verified retrofit devices.

20 I just wanted to underscore, perhaps everybody
21 knows this by now, but many people don't realize that
22 those most exposed to emissions from school buses are the
23 people actually riding on the bus. It may be
24 counter-intuitive, but the combination of exhaust
25 recirculating back in as well as blow-back from the engine

1 has been demonstrated through research, some of which we
2 have sponsored ourselves to be the highest inside the
3 school buses as it is anywhere around them. So this is
4 truly a program that's aimed at children as well as, of
5 course, the school bus drivers.

6 Mr. Goldstene, would you please introduce this
7 item?

8 EXECUTIVE OFFICER GOLDSTENE: Thank you, Chairman
9 Nichols.

10 ARB's incentive programs have a successful record
11 of repowering, retrofitting, and accelerating the turnover
12 of old, highly-polluting engines and achieving much needed
13 surplus emission reduction. These incentive programs are
14 an important aspect to cleaning up California's vehicles
15 and equipment and achieving additional emission reductions
16 to those required by regulations.

17 However, in order for the programs to continue to
18 be successful, they must periodically be updated to keep
19 pace with technological statutory, regulatory, and policy
20 changes; and to benefit from the experience that ARB and
21 the local air districts have accumulated in overseeing and
22 implementing the Lower-Emission School Bus and Carl Moyer
23 Programs, it's critical now we be responsive to
24 stakeholder feedback as well as to changes in the economic
25 and regulatory climate.

1 To that end, staff designed the proposed
2 revisions to increase program participation and increase
3 funding eligibility across several categories, including
4 on-road, heavy-duty vehicles, and off-road equipment. In
5 addition, the proposed changes are designed to be easily
6 integrated into air districts' day-to-day operations.

7 Staff worked in close cooperation with
8 stakeholder and the local air districts to propose the
9 near-term revisions, soliciting input during five public
10 workshops, and numerous work group meetings.

11 Staff also received valuable input on key policy
12 issues from the Incentive Program's Advisory Group.

13 I'd like to extend my appreciation to all
14 participants in that advisory group and especially to
15 Board Member Sandra Berg for her leadership.

16 I'd like to turn the presentation over to Duong
17 Trinh of the Mobile Source Control Division who will cover
18 the proposed guidelines' revisions in more detail.

19 (Thereupon an overhead presentation was
20 presented as follows.)

21 AIR POLLUTION SPECIALIST TRINH: Thank you, Mr.
22 Goldstene.

23 Good afternoon, Chairman Nichols and members of
24 the Board.

25 Today, I will provide an overview of the staff's

1 proposed near-term revisions to the Low-Emission School
2 Bus Program and the Carl Moyer Program guidelines.

3 --o0o--

4 AIR POLLUTION SPECIALIST TRINH: I will begin by
5 highlighting some background information for each program.

6 Next, I'll discuss the key issues related to the
7 Lower-Emission School Bus Program, and explain staff's
8 proposed near-term guideline revisions to the School Bus
9 Program.

10 I will follow this with key issues and proposed
11 near-term guideline revisions for the Carl Moyer Program.

12 We also look towards the future with potential
13 long-term program opportunities and close with staff's
14 recommendation.

15 --o0o--

16 AIR POLLUTION SPECIALIST TRINH: The
17 Lower-Emission School Bus Program was established by the
18 Board in December of 2000. Through a partnership between
19 the Air Resources Board and local air districts, grant
20 funding is offered for new, safer school bus replacements,
21 and to place retrofits on existing high polluting school
22 buses already in use.

23 Funding supports the primary goals of the program
24 which are to reduce children's exposure to cancer-causing
25 and smog-forming pollutants, reduce toxic diesel

1 emissions, and provide new safer transportation.

2 --o0o--

3 AIR POLLUTION SPECIALIST TRINH: The school bus
4 program has been very successful, having already provided
5 over \$100 million to school districts. This has resulted
6 in the replacement of approximately 600 school buses and
7 the retrofit of an additional 3,800 buses.

8 At the start of the program, there were about
9 1900 pre-1977 public school buses in California. More
10 specifically, the oldest buses that pre-dated minimum
11 federal safety standards. And today, there are less than
12 50 pre-1977 public school buses left in California. And
13 those remaining buses will be replaced under this program.

14 Current funding is received through the sale of
15 state bonds authorized by Prop. 1B, the bond act approved
16 by California voters in November 2006. Prop. 1B
17 authorizes \$200 million for replacing and retrofitting
18 school buses, with the first priority to replace all
19 remaining pre-1977 buses. The next priority is to replace
20 1977-1986 buses and retrofit 1994 and newer school buses.

21 --o0o--

22 AIR POLLUTION SPECIALIST TRINH: Now I'd like to
23 quickly provide some background on the Carl Moyer Program.
24 Established in 1998, the Carl Moyer Program is a
25 partnership between ARB and the local air districts that

1 provides grants to owners of vehicles and equipment to pay
2 for the incremental cost of funding low emission
3 technologies that provide reductions above and beyond
4 those required by regulation.

5 By targeting unregulated sources and funding
6 early and extra emission reductions, the program
7 complements existing regulations to help California meet
8 federal, State, and local air quality standards.

9 The state law establishes the basic structure of
10 the program, including covered pollutants, eligible
11 projects, and cost effectiveness limits. ARB has provided
12 statutory authority to create a guiding document to help
13 define and clarify the boundaries of the program while
14 local air districts perform on-the-ground implementation
15 of the program.

16 ARB has the responsibility to oversee that the
17 program is implemented effectively and efficiently and in
18 accordance with the statute and provide SIP-considerable
19 emission reductions.

20 --o0o--

21 AIR POLLUTION SPECIALIST TRINH: The Moyer
22 Program has provided over \$360 million to replace,
23 repower, or retrofit equipment, enabling the purchase of
24 approximately 17,700 cleaner engines. The Carl Moyer
25 program has been highly successful and has proven

1 extremely cost effective at about \$2600 per ton of NOx
2 reduced. Over the first nine years, the surplus emission
3 reductions achieved equate to about 41 tons per day of NOx
4 and one-and-a-half tons per day of particulate matter.

5 --o0o--

6 AIR POLLUTION SPECIALIST TRINH: This chart shows
7 cumulative funding provided by the Carl Moyer Program over
8 the first nine years based on the project type. As such,
9 the distribution of funding has evolved over this dynamic
10 period and will continue to evolve over time as current
11 regulations are amended and new regulations adopted by the
12 Board.

13 As you can see, average over the first nine years
14 of the program, demand for funding has been strongest for
15 on-road, off-road, and agricultural equipment. Many of
16 the changes staff is proposing today are geared toward
17 increasing both accessibility to funding and participation
18 in the program, in particular for these categories.

19 --o0o--

20 AIR POLLUTION SPECIALIST TRINH: The success of
21 the Lower Emission School Bus and Carl Moyer Programs is
22 due in part to each program's ability to adapt and be
23 responsive to change.

24 I will now highlight several issues that call out
25 the need for changes in each program.

1 address the slow infusion of bond funds. Although we
2 received the good news that recent bond sales were enough
3 to cover the entire amount allocated to the Lower-Emission
4 School Bus Program, this change is still necessary in
5 order to provide air and school districts time to receive
6 the funding and install the retrofits.

7 The next proposed revision will allow the
8 purchase of a 2010 or newer model year engine certified at
9 or below 0.5 grams per break horsepower hour of NOx.
10 Currently, engine manufacturers are using regulatory
11 flexibility to provide engines above the 2010 standards of
12 0.2 gram NOx. By setting a threshold of 0.5 grams, we
13 ensure cleaner diesel buses are available statewide.

14 Staff will evaluate this threshold annually and,
15 if necessary, utilize the Board's directed authority to
16 the executive officer to make any changes.

17 Staff is also proposing to simplify the
18 disbursements process to allow for faster disbursement of
19 funds to the air districts.

20 The last item is in response to requests for
21 changes to the cost cap limit. An increase to the current
22 140,000 cost cap for replacement buses was considered.
23 However, staff believes this would conflict with the
24 program's goal of efficiently using program funds to
25 maximize emission reductions as the overall number of

1 expand the voucher incentive program, a streamlined truck
2 replacement program commonly known as VIP to allow medium
3 heavy-duty trucks to participate and increase funding to
4 \$45,000 per truck.

5 Currently, 1993 and older trucks are eligible.
6 Staff is proposing to expand the VIP to include
7 eligibility for 2002 and older trucks and make the same
8 change in the traditional Moyer fleet modernization
9 program.

10 Staff also proposes a voucher option for
11 retrofits on on-road vehicles. Originally, staff had
12 proposed a maximum funding amount of \$5,000. But based on
13 feedback from air districts and participants, we are now
14 proposing funding up to \$10,000 per retrofit. This change
15 to staff's original proposal is available in Attachment B
16 to the resolution, which is available.

17 For the off-road, staff proposes to modify the
18 guidelines to reflect SB X2_3, which requires the Moyer
19 Program to allow a ten-year project life for farm
20 equipment and allow these projects to be eligible for
21 funding up to a regulatory compliance deadline.

22 Based on feedback of staff's original
23 interpretation, we are proposing to modify the definition
24 of farm equipment to be consistent with agricultural
25 operations as defined in the in-use off-road diesel

1 Small and rural air districts that account for
2 approximately 8 percent of annual program funds and
3 generally have limited resources. In recognition of this,
4 staff proposes to reduce administrative requirements for
5 these districts, including project inspection and
6 application tracking requirements.

7 Staff also proposes to streamline the application
8 and funds disbursement process for all districts. All
9 administrative funds would be provided up front, while
10 disbursement of funds will be made more quickly.

11 Staff proposes to delete the equipment usage
12 requirement from future contracts, so long as sufficient
13 usage data is provided during the application process.
14 For existing contracts, a temporary waiver from the usage
15 requirement will be allowed in situations where usage has
16 decreased due to unforeseen factors beyond the grantee's
17 control. These revisions take into account changes in the
18 economy, while ensuring accountability.

19 Finally, staff proposes to update the cost
20 effectiveness cap and the capital recovery factor, which
21 is used in calculating a project's cost effectiveness. On
22 an annual basis, staff will calculate these figures using
23 currently published data. These annual updates are
24 authorized under state law, and will help the program
25 respond to the current economic climate and maximize the

1 use of public funds to reduce emissions.

2 --o0o--

3 AIR POLLUTION SPECIALIST TRINH: The
4 modifications I've just described are all near term
5 actions to improve the programs. But staff is working on
6 longer term improvements as well. Our goals are to look
7 for additional avenues to increase program efficiency
8 while balancing simplicity, improving flexibility to
9 current funded source categories and possibly new source
10 categories, while adhering to Health and Safety Code
11 requirements.

12 Among other items, staff intends to develop an
13 on-road truck reuse program, otherwise known as tiered
14 truck transaction, in coordination with the Goods Movement
15 Program.

16 Staff will look for opportunities to address
17 greenhouse gases and the potential of targeting the
18 reduction of these sources.

19 School bus projects funded by AB 923 previously
20 received additional flexibility from the Board when the
21 2008 guidelines were adopted. Stakeholders are now asking
22 staff to re-visit that flexibility and consider expanding
23 it to ensure funds can be spent on school bus projects
24 through 2015. Staff proposes that once developed through
25 the public process, these, and other changes, can be

1 respond to significant changes.

2 --o0o--

3 AIR POLLUTION SPECIALIST TRINH: Staff recommends
4 the Board to approve the proposed near-term revisions to
5 the Lower-Emission School Bus Program guidelines and the
6 Carl Moyer Program guidelines as incorporated in the
7 underline strike-out modifications provided by staff,
8 including the revised modifications as presented to the
9 public and the Board today.

10 This concludes staff's presentation, and we'll be
11 happy to take any of your questions.

12 CHAIRPERSON NICHOLS: Thank you.

13 Are there any Board member questions before we
14 proceed to testimony?

15 If not, we have a list of witnesses. There are
16 six.

17 We'll start with Joseph Steinberger and Fred
18 Minassian and Barbara Lee.

19 MR. STEINBERGER: Good morning, once again,
20 Chairperson Nichols and members of the Board.

21 The Bay Area Air Quality Management District
22 appreciates the opportunity to provide comment on the
23 proposed 2008 ARB Carl Moyer Program guidelines and
24 Voucher Incentive Program guidelines. The update of these
25 guidelines presents an opportunity to improve the

1 efficiency, and the effectiveness of the Moyer Program for
2 your agency, implementing air districts, and applicants.

3 The district supports this retooling effort and a
4 majority of the changes being proposed today. However,
5 the district does not support the mandate for all
6 districts administering the voucher program to incorporate
7 the proposed retrofit component for the following reasons:

8 First, the retrofit opportunities are already
9 available through the Moyer Program without the need to
10 contract with installers or vendors. The proposed voucher
11 program requirement and funding amounts are virtually
12 identical to the Moyer Program On-Road Retrofit Program.
13 The addition of the retrofits to the Voucher Program will
14 create confusion amongst applicants for districts offering
15 both the Moyer and Voucher Programs, with very little
16 benefit.

17 Secondly, the proposed changes do not address the
18 major barriers that prevent us from funding retrofit
19 projects under the current guidelines.

20 The first of these is limited vehicle model years
21 that are currently eligible. That's only 2004 through
22 2006.

23 The second limitation is it's only for small
24 fleets.

25 And the third, which I might have to withdraw

1 because originally it was only for 5,000, but now that
2 it's been increased to \$10,000, we're glad to see that
3 you've accommodated our comments on that.

4 Third, the decision to require the retrofit
5 component of the program was not discussed at any public
6 meetings and not clearly indicated as a requirement in any
7 of the proposed revisions. Since the requirement of the
8 retrofit of the voucher program would not address the
9 barriers of this project type, I would not create
10 opportunities for funding.

11 We believe that our efforts would be best spent
12 promoting the existing on-road retrofit opportunities
13 through the Moyer Program, and that the participation in
14 the retrofit portion of the program should be optional.
15 Requiring participation in the retrofit voucher program
16 would duplicate the efforts of an existing program without
17 a clear benefit to the public and would create an
18 additional burden on districts that have already limited
19 administrative resources.

20 Thank you very much.

21 CHAIRPERSON NICHOLS: Thank you.

22 Fred Minassian and then Barbara Lee.

23 MR. MINASSIAN: Chair Nichols, members of the
24 Board, good morning.

25 I'm Fred Minassian, Technology Implementation

1 Manager at the South Coast AQMD.

2 The South Coast supports the revision of the Carl
3 Moyer and Lower-Emission School Bus Program guidelines.
4 And we will continue to work with your staff in
5 implementing changes that will improve the longer term
6 viability of the program.

7 We have three comments regarding the proposed
8 revisions. First is that we agree with Bay Area AQMD's
9 comment that it is a good thing that the retrofit amount
10 was increased from 5,000 to \$10,000. However, we still
11 believe that in the Vehicle Incentive Program the retrofit
12 component participation by air districts should be
13 optional.

14 The second comment is again related to VIP. That
15 program is funded by SB 1107 multi-district funds.
16 However, CARB requires equal match funding from
17 participating air districts. This requirement is not
18 required in the Health and Safety Code and puts an
19 unnecessary burden on the districts. If the VIP is
20 successful, the districts will be augmenting it with their
21 local funds. But matched funds should not be a
22 requirement from the offset.

23 Our third comment is related to the
24 Lower-Emission School Bus Program. The South Coast AQMD
25 has been implementing this program and replacing pre-87

1 buses for the past ten years. Thus, there are schools
2 where the entire fleet of pre-1987 buses have been
3 replaced.

4 We propose that you allow the replacement of 1987
5 through 1993 school buses with AB 923 funds in future
6 guideline revisions, as long as the participating school
7 districts replace their pre-87 buses first.

8 I thank you for the opportunity to speak. And
9 this concludes my remarks.

10 CHAIRPERSON NICHOLS: Okay. Thank you.

11 Barbara Lee and then Mike Sandler.

12 MS. LEE: Good morning, Madam Chairman and
13 members of the Board.

14 My name is Barbara Lee. I'm the Air Pollution
15 Control Officer in the Northern Sonoma County Air
16 Pollution Control District. I'm also here as a
17 representative of the California Air Pollution Control
18 Officers Association.

19 I need to echo the three comments that Fred
20 Minassian made. Those were unanimous comments from
21 CAPCOA's Grants Committee.

22 But my main purpose in coming is to recognize the
23 efforts undertaken by the staff in bringing forward this
24 proposal. They have worked collaboratively and
25 cooperatively with the air districts. It's a good

1 partnership. We're very happy to be working with them in
2 this way on this important program.

3 And I also want to say a special thanks to Board
4 Member Sandra Berg for all the hard work she has put into
5 this program. It is improving. There is still more work
6 to be done, but we are very hopeful that we are going to
7 come out at the end of this retooling process with a
8 really superior Carl Moyer Program. And I just wanted to
9 recognize the efforts of the Air Board and to thank you
10 for that.

11 CHAIRPERSON NICHOLS: Thank you very much.

12 Mike Sandler and then Mark Loutzenhiser.

13 Mr. Sandler, if you're here. If not, then Mr.
14 Loutzenhiser. Barry Wallerstein following him.

15 MR. LOUTZENHISER: Good morning, Chairman
16 Nichols, members of the Board.

17 My name is Mark Loutzenhiser. I'm the Program
18 Supervisor overseeing the incentive programs at the
19 Sacramento Air Quality Management District. I apologize
20 Larry Greene, our Executive Officer, is not able to be
21 here. Unfortunately, as happens in all cases, our Board
22 meeting coincides with this Board meeting. So he is still
23 at that Board meeting as of when I left after my consent
24 items on that calendar.

25 One of the first things I want to do is just

1 again thank the ARB staff, Chairperson Berg, Mr. Goldstene
2 in terms of the Executive Officer here at ARB, the APCOs
3 as well, because there has been a lot of time spent over
4 the last several months by all the parties and industry
5 stakeholders as well. There has been a tremendous group
6 effort going forward on these proposed changes in order to
7 help facilitate the program going forward.

8 We are very supportive of the program. We
9 administer the Carl Moyer Program for not just the
10 Sacramento Air District, but also for El Dorado, Placer,
11 Yolo, Solano. And in the case of the School Bus Program,
12 we're administering it for the same districts plus Butte
13 and Glenn as well. So we do view these changes as being a
14 tremendous step in a great direction in helping us move
15 forward with these different programs.

16 We also do support the change that has just been
17 presented by staff today, in terms of raising the retrofit
18 value from the 5,000 to 10,000. I think that may
19 definitely help out the VIP Program. And although it
20 hasn't been touched upon as much here, I do believe the
21 other changes in the VIP Program will hopefully make it a
22 very successful program going forward. So we do look
23 forward to those opportunities being brought forward as
24 part of that program.

25 We do look, as an agency, to probably want to

1 include the retrofit portions, but we agree with your
2 earlier comments we'd like to see it more on a voluntary
3 basis, for the main reason being that oftentimes getting
4 all the documentation together and the agreements with the
5 vendors like that can take time. And we're very
6 interested in trying to get as much of this funding out as
7 possible as quickly as possible under the VIP Program.
8 And we would like to be able to see the addition of the
9 retrofit portion not slow down those other efforts.

10 And so those are just our comments. And thank
11 you again to the Board, the staff, and of course all the
12 Executive Officers that have been a party to this program
13 as well.

14 CHAIRPERSON NICHOLS: Thank you very much. Okay.
15 Barry Wallerstein and Sean Edgar.

16 MR. WALLERSTEIN: It's still morning, and I'm
17 still Barry Wallerstein, the Executive Officer of the
18 South Coast AQMD.

19 My only purpose in coming up here is not to
20 address the technical comments that everyone has made, but
21 to really recognize what Board Member Berg mentioned in
22 her opening comments about a retreat that was held between
23 the CAPCOA members and the CARB staff. And I want you all
24 to know that from my perspective, and that of the other
25 Air Pollution Control Officers, that was a break-through

1 moment. And I think a tremendous amount of credit goes to
2 Board Member Berg, because she got us to a point where we
3 weren't talking past each other but talking to each other
4 and developing mutually acceptable solutions.

5 And so as you've heard from all the witnesses,
6 we've really moved this onto a good path with some good
7 changes before you. We've asked for a few things to tweak
8 what's before you. But we're also working to the future
9 to make sure this continues to be the program that we all
10 want to improve air quality throughout the state. So
11 thank you.

12 CHAIRPERSON NICHOLS: Thank you. You can keep
13 the praise coming for Sandy Berg.

14 Mr. Edgar.

15 MR. EDGAR: Chairman Nichols and Board members,
16 Sean Edgar with the Clean Fleets Coalition.

17 I'll join the lovefest of praise, if I may.
18 Thank you, Board Member Berg, for your efforts during this
19 process.

20 I'll make two very focused comments designed to
21 make this program more meaningful to the fleet operators.

22 The first is on the Truck Trade Down Program, I
23 consider myself an uncle or nephew -- I don't know how to
24 phrase my relationship -- but myself, San Joaquin Valley
25 Air District, and the nonprofit associations, as well as

1 some private fleet owners in San Joaquin Valley were
2 really the driving force behind working with your staff to
3 get that as an eligible program under 1B. It's not
4 currently working. I make that assessment, because I'm
5 not aware of a single project that's been done under 1B
6 for truck trade down. I think part of that is due to the
7 rule timelines are extremely tight, and the truck and bus
8 rule essentially functions as a ban on 2003 and older
9 equipment. And I think that because of the short project
10 life, it doesn't fit well with the Proposition 1B. So
11 this might be a venue, and I'll pledge myself to work with
12 your staff to see if we can structure something meaningful
13 with regard to a truck trade down. And happy to work on
14 that project with staff.

15 The second item I noticed on the engine standard
16 issue that just caught my attention, I would hope and ask
17 Board staff and Board members to take a look at the issue
18 of the NOx standard that staff proposed there. It would
19 seem to me this is a voluntary process. And if there is
20 additional environmental benefit to the cleanest engine
21 available, then perhaps there is an extra credit provision
22 in there. It's not to discredit any of the fine engines
23 that are being produced, but only to recognize that extra
24 credit may be warranted and meaningful and meritorious of
25 some additional award beyond where staff set that bar.

1 So once again, thank you. And as a member of the
2 lovefest I'll turn it over to our next speaker. Thanks.

3 CHAIRPERSON NICHOLS: We had one additional
4 speaker, Brad Poiriez. Is that close?

5 MR. PIORIEZ: Very close, thank you.

6 Brad Pioriez, APCO for Imperial County.

7 I too want to echo the comments of my colleagues
8 that have been said today. And I want to extend a thank
9 you to Ms. Berg for being involved. I think that you
10 personally being involved with those discussions that we
11 had helped us a long way. It moved us along much faster
12 and was much more beneficial for all parties. I'd like to
13 thank you personally as well.

14 I'm from a rural air district, very small.
15 Imperial County is down on the border of Mexico. These
16 programs are vital for us rural districts in helping us
17 achieve those positive benefits and reductions in air
18 emissions.

19 And I would support the changes being proposed,
20 and we look forward to working with your staff in the
21 future and continuing this good working relationship that
22 we have right now.

23 Thank you.

24 CHAIRPERSON NICHOLS: Thank you so much.

25 I can say from my own experience I've seen how

1 divisive some of these questions about the Moyer and other
2 incentive programs have been between the districts and the
3 ARB. So all of this praise is good to hear, not only
4 because it reflects the work of one of our Board members,
5 but because it also indicates that perhaps we're really on
6 a better path now in terms of being able to implement this
7 program successfully. So thanks to everybody who
8 participated.

9 I think it's time now to bring this back to the
10 Board.

11 Does staff have any additional comments they'd
12 like to make at this time?

13 ON-ROAD CONTROLS BRANCH CHIEF ROWLAND: Yeah. If
14 we can address some of the concerns that the witnesses
15 brought up, particularly with regards to the VIP Program
16 for retrofits.

17 We do believe that it provides value above and
18 beyond the current provisions in Moyer. One of the major
19 aspects of the Voucher Incentive Program both for trucks
20 and the proposed program for retrofits is it is a
21 statewide program that anybody can -- any applicant can
22 basically apply and be funded. It's also a simplified
23 process with less paperwork for both the districts and the
24 applicants for implementing, which makes it a lot easier
25 for these smaller fleets who are kind of struggling. They

1 don't have the time or possibly the legal resources to
2 deal with the contracts. So it's a simplification for
3 them.

4 We do recognize that the concern that the
5 gentleman from the Bay Area brought up concerning the time
6 it takes to develop contracts with the retrofit suppliers
7 and the installers, and we want to commit to working with
8 them to help them do that and to make sure that there is
9 time to do it and do it right.

10 With regards to the match issue for VIP that Mr.
11 Minassian brought up, that was a policy call made in the
12 institution of the Voucher Incentive Program to ensure
13 that there were funds available for this program. Very
14 important to ensure a successful roll-out. And I would
15 note that unlike other match funds that the districts must
16 provide from local funding sources, the funds to match the
17 VIP Program can come from their other Moyer funds. So
18 hopefully that reduces their burden somewhat.

19 And then finally, I'd just like to touch on the
20 request that school bus funding under AB 923 funds that
21 basically we expand opportunities for that. That is
22 something that we have identified in the presentation as
23 something that we would like to do, and we will work with
24 them to make sure that that can happen. Thank you.

25 CHAIRPERSON NICHOLS: Thank you very much.

1 Do we have a motion on this item?

2 BOARD MEMBER RIORDAN: I'd move approval, Madam
3 Chair.

4 BOARD MEMBER YEAGER: Second.

5 CHAIRPERSON NICHOLS: Any further discussion on
6 the part of the Board about this item? If not, we can
7 just call for a vote.

8 All in favor please signify by saying aye.

9 (Ayes)

10 CHAIRPERSON NICHOLS: All opposed?

11 Any abstentions?

12 Thank you very much. Good work, all. Really
13 appreciate it. This has been very tough, and I know how
14 significant every element of this is to somebody involved.
15 So I appreciate the great effort that went into it.

16 We will now be on break for an hour.

17 (Thereupon a lunch recess was taken.)

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AFTERNOON SESSION

1

2

01:25 PM

3

CHAIRPERSON NICHOLS: We're ready to begin.

4

As I indicated this morning, but in case there was anybody who didn't hear, we changed the order of the items from what it had been. We're proceeding with the presentation on the allocation advice before we get into the economic analysis report.

9

So this involves a presentation from the Chair of our Economic and Allocation Advisory Committee, Professor Larry Goulder. He's also accompanied by another member of the Committee, Steve Levy.

13

Secretary Adams of Cal/EPA and I convened this 16-member Economic and Allocation Advisory Committee, which we fondly know as EAAC, in May of 2009. We asked a diverse group of economic, financial, and policy experts to help us work through one of the most contentious issues related to the Cap and Trade Program: That is how the valuable allowances created by the program should be distributed.

21

As you will hear, we also asked the EAAC to work with staff during the development of our updated economic analysis of the Scoping Plan.

24

The work of this Committee has examined every aspect of how the available allocation options could shift

25

1 the impact of the Cap and Trade Program between the
2 regulated parties and California consumers of fuels and
3 electricity. The report has elevated the debate around
4 this issue and has allowed stakeholders to participate in
5 thinking through the implications of various allocation
6 choices.

7 But I want to emphasize, in case he doesn't do it
8 himself, that this Committee was not selected by Linda and
9 myself or by the Chairman to be a diverse -- to be a
10 stakeholder group, to try to reach a consensus based on
11 the balancing the interests of various groups within the
12 state of California.

13 And also I would like to personally thank all of
14 the members of the Committee for having given so much of
15 their time and talent to this venture, and particularly to
16 thank Professor Goulder who is actually a recidivist since
17 he Chaired the MAC Committee that helped launch us on this
18 venture in the first place.

19 All right. Mr. Goldstene, do you want to
20 introduce the presentation?

21 EXECUTIVE OFFICER GOLDSTENE: Thank you, Chairman
22 Nichols.

23 In developing the report on allocation, the
24 Economic and Allocation Advisory Committee held an
25 extensive stakeholder process involving nine public

1 meetings and conference calls. They received over 120
2 comments from stakeholders on their work and released six
3 public drafts of the report prior to reaching the final
4 document you have before you today.

5 As staff releases the next step draft of the cap
6 and trade regulation this spring, probably near the end of
7 April, a detailed section on allocation will be presented
8 for public comment. This section will be informed by the
9 Committee's recommendations. Staff will continue to
10 refine this approach until we bring the cap and trade
11 regulation to the Board for adoption most likely in the
12 late fall.

13 With that, let me introduce Dr. Goulder.
14 Professor Goulder is a professor in environmental and
15 resource economics, Chair of the Department of Economics
16 at Stanford University. He's also a research associate at
17 the National Bureau of Economic Research and a University
18 Fellow at Resources for the Future.

19 I'd like now to ask Professor Goulder to present
20 the report on allocating emission allowances under
21 California's Cap and Trade Program.

22 Dr. Goulder.

23 (Thereupon an overhead presentation was
24 presented as follows.)

25 PROFESSOR GOULDER: Thank you, James.

1 as well. There is a lot at stake. Depending on what the
2 allowance prices might be, whether the allowance price is
3 \$20 a ton versus \$60 a ton, the total allowance value
4 could be anywhere between 7 and \$22 billion in 2020 alone.
5 That's a lot of change. Makes a huge difference, and
6 obviously there's political implications as well about who
7 gets how much of this allowance value.

8 I also want to emphasize something that's often a
9 misconception associated with allowance value. This very
10 high number, 7 to 22 billion in 2020 for allowance value,
11 is not the same thing and should not be identified with
12 the cost of AB 32 or of cap and trade. To a large extent,
13 almost entirely the allowance value stays within the
14 economy. It can go to some individuals, to some
15 enterprises or others, but it is not in itself a cost.
16 And some of the studies that have been done have
17 incorrectly identified allowance value with cost. The
18 overall cost to the economy is considerably less. Might
19 be a very small fraction of allowance value. Under some
20 studies, the overall cost to the economy is negative.
21 That is, there is an overall benefit even ignoring the
22 environment, despite the very large allowance value. So
23 it's important to keep those distinctions in mind.

24 Perhaps an analogy that would help in recognizing
25 this is if you introduced a tax, the revenues from a tax

1 A third issue is environmental effectiveness.
2 Depending on how you design the system, in some cases, you
3 might have more leakage of emissions. That is, there
4 could be offsetting increases in emissions outside of
5 California that undue the effects within California, than
6 in other cases where you'll have less leakage. So
7 environmental effectiveness is an important consideration.

8 And finally, and somewhat in opposition to the
9 first three criteria, we have the concern for simplicity.
10 We're trying to juggle many different normative criteria
11 and come up with the best overall package.

12 We think that is very much consistent with the
13 language of AB 32 itself.

14 Advance the slide, please.

15 --o0o--

16 PROFESSOR GOULDER: I think they connect closely
17 with some of the stated objective of AB 32. There's more
18 in the report in terms of the language of AB 32. But if
19 you'll see the bullets here, you'll notice that the Act
20 stipulates in its own language that the regulation should,
21 for example, seek to minimize costs, minimize the
22 administrative burden, so that's very consistent with cost
23 effectiveness. Also suggest that we should design the
24 regulations in a manner that's equitable and ensures there
25 is not a disproportionate impact on low-income households

1 focusing on our key recommendations and provide briefly
2 the justification for those recommendations. And I'm
3 going to basically talk about three or four of the key
4 recommendations here. There are actually 12 that are
5 listed in the report.

6 The first is -- and I'm going to divide the
7 recommendations into two general categories, the first
8 having to do with the mechanisms or the instrument of the
9 approach used to introduce the allowances into
10 circulation. And our first recommendation is to rely
11 principally, if not exclusively, on auctioning as opposed
12 to free provision or free allocation of allowances.

13 Now, let me tell you that when I started this
14 work with the Committee, I had a different view. And my
15 view's changed. I originally was more sympathetic to free
16 provision, at least as part of the process, than I am now.
17 And my discussions with a number of people on the
18 Committee ultimately convinced me that free allocation had
19 a lot less going for it than I originally thought. Let me
20 indicate some of the arguments that we apply to try to
21 indicate the advantages of auctioning. And I'll indicate
22 we, in a sense, say that we should use auctioning almost
23 exclusively with one exception, which I'll get to later.

24 First advantage of auctioning is it's very
25 transparent. It makes clear the amount that folks are

1 willing to pay to avoid emitting greenhouse gases. That's
2 how much you're willing to pay for an allowance. And it
3 reveals immediately the marginal cost of abatement perhaps
4 more immediately and more clearly than under free
5 provision.

6 But the next point is more important, and that is
7 that auctioning can lower the overall cost, and indeed can
8 lower those costs substantially relative to free
9 provision. The reason is as follows. And I should say
10 that it can do this. It doesn't necessarily do this. It
11 depends on what's done with the auction revenues.

12 If you use the auction proceeds to help to go to
13 the treasury and thus help finance government expenditure,
14 then the government needs to rely less on ordinary taxes
15 to meet its expenditures. For every dollar in auction
16 revenue that goes to the government, that's one less
17 dollar that needs to be collected through taxes. So you
18 can either use the money to cut existing taxes or to avoid
19 some of the increased taxes that might be envisioned.

20 And economists will tell you a well-worn notion
21 in economics is that ordinary taxes distort the economy
22 and cause dead weight loss or excess burden. Typical
23 estimate is that for every dollar you raise in taxes, you
24 actually cost the economy about a dollar-30, because of
25 the affects on labor market efficiency or on investment

1 the auction proceeds to provide some kind of relief. You
2 don't have to do it through free allocation.

3 Next, please.

4 --o0o--

5 PROFESSOR GOULDER: Another important issue, and
6 obviously there's a great deal of political implications
7 of this, is the question of whether you need free
8 allocation or whether free allocation is warranted in
9 order to protect industry, whether it's stockholders,
10 managers, or employees.

11 Here's where my own views have changed over the
12 last ten months. I had first thought that you needed a
13 modicum of free allocation in order to make whole certain
14 industries in order to help stockholders avoid what would
15 otherwise be a loss of asset value. Free allocation would
16 enable them to maintain asset value better than
17 auctioning.

18 But many of my fellow Committee members pointed
19 out to me that in many cases the stockholders that you
20 might want to help have already left the scene. They no
21 longer own the shares. And moreover, the shares may have
22 already lost value, so you're no longer -- it's actually
23 somewhat late in the game to try to help those remaining
24 stockholders. The reason they lost value is that the
25 expected impacts of AB 32 have already been capitalized in

1 what to do with the allowance value, who gets it.

2 And this is somewhat distinct from the issue of
3 how to allocate the allowances through auctioning or free
4 allocation. The allowance value is the same under the
5 two. The question what is to do with that value.

6 Next.

7 --o0o--

8 PROFESSOR GOULDER: As I have indicated, there's
9 a lot of value involved. Depending on the price of
10 allowances, I'm using the range that comes from the ARB's
11 own reports, anywhere between 7 and 22 billion in
12 allowance value in the year 2020.

13 Well, what the Committee decided to do was to
14 take a two-stage approach here. First was involving
15 earmarking certain purposes to which priorities should be
16 given. And these are the three purposes listed.

17 One is addressing emissions leakage as I
18 indicated on the previous slide. You can use output-based
19 free allocation in order to -- and that would involve some
20 allowance value -- to try to avoid emission leakage. That
21 is, to avoid offsetting -- basically to avoid a
22 contraction in the energy-intensive trade exposed
23 industries within California which would just lead to
24 offsetting increases by the competitors outside of
25 California. That, of course, would contravene the spirit

1 of AB 32. Just having emissions reduced in the state
2 doesn't seem so good if it's being completely offset by
3 increased emissions out of state. So that would be one
4 way to apply allowance value that we would support.

5 A second, and in keeping with the language of AB
6 32, we felt that allowance value should be devoted to
7 avoiding a disproportionate impact on low-income
8 households in the state. Disproportionate in the sense
9 that the percentage impact on income would be larger than
10 those households which are not considered low income.

11 In the report, we provide some numbers, some
12 figures that were estimated by Dan Kammen on our Committee
13 and some other work done by James Boise on our Committee
14 to indicate how much allowance value would be used for
15 this. It was found that relatively little allowance value
16 would be needed to avoid a disproportionate impact.

17 The third earmarked area would be consistent with
18 the language of AB 32 would be to finance a contingency
19 fund to address any adverse local environmental impacts
20 that might ultimately result from AB 32. I would
21 emphasize that we didn't think that such impacts were
22 likely. To a large extent, of course, AB 32 is reducing
23 emissions. It's reducing not only greenhouse gas
24 emissions, but also the correlated emissions, the local
25 pollutants that go along with it.

1 actually something that was very gratifying to me -- our
2 Committee reached a very strong consensus on everything
3 I've said up to now. I was very pleased. I think frankly
4 we got dealt a good set of cards that the Committee
5 members, with the exception of the extreme on my left
6 here, were very cordial and fair minded.

7 (Laughter)

8 PROFESSOR GOULDER: I kid, Steve.

9 But one area that we did not achieve consensus
10 was in what way that 75 percent of the remaining allowance
11 value should be returned to households. Several on the
12 Committee felt strongly that we should take an approach
13 that's called the cap and dividend approach where you
14 return the allowance value to households as a lump sum.
15 That is basically a rebate check.

16 The advantage of that -- next.

17 --o0o--

18 PROFESSOR GOULDER: It's very salient. It has
19 some public relations advantages and political advantages
20 in that the households will see that immediately, and it
21 can be very advantageous in many ways in terms of the
22 public awareness.

23 A slight majority of the Committee, however, felt
24 that returning the revenues to households to the private
25 sector in the form of lower taxes, that is avoiding future

1 tax increases or actual tax reductions, would be a better
2 way to go. And the argument there is the one I made
3 earlier, that this is a way you can reduce, and in my view
4 reduce substantially, the cost of AB 32 or of cap and
5 trade.

6 My own view is that this is an issue that's been
7 under recognized. There's a whole lot at stake in terms
8 of whether you return the allowance value as a lump sum
9 versus allowing it to go back to the tax system and avoid
10 the tax rate increases or promote tax rate reductions. As
11 I mentioned, something like two to five billion dollars.
12 And that's a lot as a share of the overall projected cost
13 of AB 32.

14 But these are issues that we were not able to
15 reach agreement on. So we agreed to disagree, and we
16 presented in more detail in the report the arguments in
17 both directions.

18 My final slide. Next slide.

19 --o0o--

20 PROFESSOR GOULDER: Offer a couple general
21 comments.

22 And I said, you know, we didn't consider politics
23 as part of our analysis. But I recognize there is the
24 elephant in the room, and that there's a lot of pressure
25 now about whether to auction allowances or freely

1 allocate, because the more you freely allocate, the more
2 you will beef up profits of some of the affected
3 businesses. And I had two comments to make about that.

4 Next.

5 --o0o--

6 PROFESSOR GOULDER: One is I would urge you -- I
7 recognize that there are these political considerations
8 that I think one thing you can do -- you asked us as
9 experts to provide input. I hope you will relay this
10 input to others, and in particular help dispel some of the
11 false claims made about auctioning, such as -- and I hope
12 I've at least indicated why these may be false, but
13 auctioning causes higher prices or that auctioning hurts
14 agreement, or that auctioning involves greater aggregate
15 cost.

16 I'm convinced, and I believe my Committee members
17 are as well, that each of these claims is wrong. And
18 indeed the last comment that involves greater cost is
19 completely wrong in that, if anything, auctioning offers
20 potential to lower the aggregate cost.

21 And the very last point, the last bullet here is,
22 if you do feel that you want to move to free provision
23 beyond that which is recommended in the report, I would
24 urge you to do so conservatively. The Waxman-Markey bill,
25 where many may figure to step forward, it ends up over

1 compensating in that more allowances are given out free
2 than is necessary to sustain the profits of the key
3 stakeholder industries. I would very much hope that in
4 California we avoid making that same mistake.

5 I'm not saying this in order to offer a strong
6 criticism of Waxman-Markey. I'm very sympathetic to the
7 bill. But in this particular aspect, my own work and work
8 of a number of others has indicated that more free
9 allocation was done.

10 For example, if you 100 percent free allocate,
11 that is, do no auctioning, you can rise profits by a
12 factor of two or three in some of the stakeholders indices
13 relative to what they would be in the absence of any
14 policy at all.

15 And this all comes at a cost to consumers and the
16 rest of the economy. To the extent again that you freely
17 allocate, you're avoiding having a source of revenue that
18 could potentially lower the cost to all of California
19 consumers, employees, owners of other industries as well.

20 So I hope you'll take that advice seriously. At
21 the same time, I do recognize there are strong
22 considerations of a political nature to address.

23 CHAIRPERSON NICHOLS: Thank you.

24 Did you want to give some time to the gentleman
25 on your left, or he just there as decor?

1 PROFESSOR GOULDER: That's up to him.

2 MR. LEVY: Just briefly.

3 CHAIRPERSON NICHOLS: Introduce yourself, please.

4 MR. LEVY: Sure. I'm Stephen Levy. I direct the
5 Center for Continuing Study of California Economy, and I
6 have met, despite his humorous comment, a wonderful new
7 friend who chaired all of these efforts.

8 I think one point is to distinguish the overall
9 impact on the economy, the common good issue from the fact
10 that there will be some industries that will expand under
11 these policies and some that might contract.

12 The point of the policy is to send a price signal
13 that will help us reduce emissions. And you don't want to
14 do anything -- whatever you think about the affected
15 industries, you don't want to do anything that undercuts
16 the purpose of the program, which is to send a price
17 signal about the use of carbon-based fuel so that we can
18 reduce emissions and shift our energy uses. That's the
19 first point.

20 The second point is really to re-emphasize what
21 Larry said, that under an auctions system, we'll collect
22 some revenue. It will stay in the economy. And the
23 overall impact of that auction revenue depends on how you
24 utilize it; for example, for technology, partnering and
25 investing in technology, or for environmental or health

1 remediation.

2 But we also all know that California is under an
3 intense set of budget pressures and budget shortfalls.
4 And so let me put a little bit different twist on what
5 Larry said. We are going to be under pressure to raise
6 revenues to maintain even the current level of services
7 according to the Legislative Analyst's office. We face a
8 ten to \$20 billion ongoing shortfall. I think the
9 Committee was unanimous in feeling that you should
10 consider the use of a portion of these allowance price
11 auction value revenues as a very positive, relative to tax
12 increases, way of maintaining the existing level of
13 spending. So I want you to see it in that light. We're
14 allowed to put a little bit of the politics into the
15 situation, the question of how we maintain the existing
16 level of public spending in California is going to be a
17 very important issue. And the issue of potential tax
18 increases, as Larry said, will be right there. This is a
19 way to avoid them.

20 Finally, it's that broader look of using the
21 allowance value that I encourage you to think broadly
22 about what returning allowance value to the public means.
23 It can be writing a check. It can be investments that
24 make our lives in California environmentally and health
25 and in terms of environmental competitiveness better. It

1 could be used for the budget.

2 So the idea that we favor extensive use of
3 returning money to the public has a very broad set of
4 policy interpretations for you to select from.

5 CHAIRPERSON NICHOLS: Thank you.

6 Well, as Professor Goulder mentioned, we asked
7 this Committee to give us their best advice on what
8 approaches to allowance allocation and use of revenue --
9 so we thought about both of those things -- would do the
10 most to maximize the overall economic benefits to
11 California, and certainly did not ask them to limit their
12 advice based on their judgments of the legal or political
13 obstacles that might arise.

14 We are now at the point where ARB staff, and
15 before too much longer this Board, is going to have to
16 face the task of taking this expert advice and others and
17 using it to construct a program that will work technically
18 and legally and will also provide a smooth transition from
19 today's world, which is largely devoid of any kind of
20 carbon regulation, and trying to cope as well with the
21 very difficult economic circumstances that California and
22 the country find themselves in in order to construct an
23 effective program.

24 I think the Committee's recommendations give us a
25 very solid place to start from. And I want to not just

1 thank them for the work, but for the very high level of
2 thought that went into this.

3 I also want to say that, from my perspective, I
4 think this is not likely to be where we'll end up, and so
5 I want to be clear about that.

6 Many of you and Board members and many others
7 have seen the letter that I got from Governor
8 Schwarzenegger yesterday expressing his views about some
9 of these issues. And I know you know that we've been in
10 communication on a regular basis, because he is extremely
11 interested in this program and in the Board's work.

12 But rather than simply allude to that letter,
13 because it has a number of broad statements in it about
14 things that he would like to see us consider, I wanted to
15 indicate a couple of areas where in ongoing work with the
16 staff I have given some pretty specific direction about
17 what they should be working on so that when they do come
18 back with a draft regulation, which will be sometime late
19 April or early May based on what we're hearing in terms of
20 other input and other work that has to be done, that there
21 will be something here that we can successfully move
22 forward with this year.

23 And recognize, first of all, that in the context
24 of implementing AB 32, this Board either has already
25 adopted or is in the process of adopting the measures that

1 are going to get us about 80 percent of the reductions
2 that are needed under AB 32, the reductions that will get
3 us from where we were when we started this program to 1990
4 levels by 2020. Those are primarily going to be based on
5 our Low-Emissions Vehicle Program, the Pavley Program, the
6 low-carbon fuel standard, and the work that's being done
7 on renewable energy resources. They represent the bulk of
8 the specific reductions that we're going to be looking to
9 take.

10 The cap that sits on top of all of this is
11 extremely important, both for assuring that the reductions
12 will get there and also for allowing to provide this price
13 signal, which we keep talking about, as a way for people
14 to begin to understand that carbon does have value and
15 that we need to figure out ways in which we can capture
16 that value.

17 So we think -- and you'll hear when we move to
18 the discussion about the new economic report -- that the
19 mix of measures and cap and trade that we put in our
20 Scoping Plan that we adopted in December 2008 was about
21 the best mix that you can come up with overall for what we
22 know about what will work in the California economy, but
23 it didn't tell us anything about how to design that piece
24 of the program.

25 So in looking at what some of the challenges are

1 that we face in designing this program -- and I think it's
2 important to remember that we're not operating in a vacuum
3 here in the state of California. When you talk about
4 industries that are trade exposed in California,
5 practically everything -- with a possible exception of the
6 two U.C. campuses that got swept into our list of 600
7 largest emitters -- could pick up and move somewhere
8 almost at any moment, with the exception of the utilities.
9 That doesn't mean that we can't find ways to reduce our
10 emissions. I'm being a little bit factitious in pointing
11 out that some of these terms that we use rather lightly
12 can have much more complicated implications in the real
13 world. And it's going to be very, very difficult for us
14 to understand all of the details of how that would work in
15 the amount of time that we have available under AB 32 to
16 actually design this program.

17 Even more important perhaps, as Larry mentioned,
18 from the very beginning of AB 32 -- and I wasn't here when
19 it was passed, but certainly I've seen a lot of the
20 statements that come from that period -- the idea that
21 California was going to be leading the way in terms of how
22 the country was going to approach this, and back in a time
23 when we had a President that didn't believe the country
24 should be doing anything about global warming. That has
25 changed, and we now have a bill that's passed the House

1 and we have a bill that's being worked on in the Senate,
2 although it's not yet been officially introduced, that
3 gives us a lot of indication about how the country as a
4 whole is likely to be addressing this problem.

5 And so it becomes even more important I think
6 than it has been in the beginning -- from the beginning to
7 understand how whatever program we start in California,
8 assuming that we get to flip the switch before some others
9 do, how that can mesh as seamlessly as possible into the
10 national program.

11 So my feeling about this is that we need to kind
12 of go back to where we started in 2007 when I first joined
13 this discussion and reestablish the notion that this is
14 something that we want to ramp up carefully. Start out
15 perhaps smaller than the full program that we might get to
16 in a few years to give ourselves time to understand what
17 the implications are, and not send too great a shock
18 signal through the California economy.

19 We want to make sure that we have in place enough
20 safety valves. And I'm thinking now particularly about
21 the issue of offsets, which the Committee did not address.
22 But when you start to look at actual requirements for
23 companies to comply within an emissions limit and have
24 allocations that cover all of their emissions, we know
25 that the program will be much more workable, much less

1 costly if there is an available supply of real,
2 verifiable, approved offsets that can be used by
3 companies.

4 So we have some issues there that we need to work
5 through and we need to engage very actively with
6 stakeholders I think to get us to a place where we have a
7 proposal that we can come out with in roughly six weeks or
8 so is the schedule we're talking about.

9 But I'm hoping that it's helpful if at least at
10 the outset we can indicate to people that we're trying to
11 do this in a way that may not achieve all of the results
12 that the Committee has suggested at the very beginning,
13 but which does represent a reasonable way of maintaining
14 the progress that we've already achieved without creating
15 the kind of response that could really make it very
16 difficult for us to keep up the momentum that we've
17 already established.

18 So it's I guess a way of saying that what we've
19 received from the Committee is important and certainly not
20 to be overlooked, but at the same time, it's not binding
21 on us. And I believe that, in fact, we will need to at
22 least at the outset take a few baby steps before we get to
23 the point where we're actually running the full system.

24 I'd like to open this up for Board member
25 discussion, and then we do have a number of people that

1 have indicated they want to speak.

2 Yes, Professor Sperling.

3 BOARD MEMBER SPERLING: Thank you.

4 Following up on your baby step theme, I thought
5 it was a superb report. It was readable, understandable.
6 It really communicated a lot of the major ideas really
7 well, and I think it's going to be very useful for us.

8 But following up on that baby step theme, I think
9 it would be useful to us if we had a better -- if we were
10 able to quantify or have a sense of the trade-offs we're
11 talking about between free auctioning, free allowances,
12 and full auctioning.

13 So, you know, I understand in absolute terms what
14 you're saying and I understand that's true from an
15 economic sense. But as Chairman Nichols said, we do have
16 these political circumstances we're dealing with and
17 there's equity issues associated.

18 So the short question is: How much of an extra
19 cost is there as best as you can quantify for different
20 levels of free allowancing -- free allowances? Can you
21 answer that?

22 PROFESSOR GOULDER: I think I can answer that two
23 ways.

24 One is by mentioning some work that I've done at
25 the federal level looking at Waxman-Markey. And that may

1 not apply perfectly to California, but it might indicate
2 in some sense the relative cost improvement from
3 auctioning. And if you take the extreme case of
4 auctioning where all of the auction revenue is used to
5 displace personal income taxes, then there's 40 percent
6 reduction in cost of Waxman-Markey compared to what would
7 be the case if you took the extreme, to allocate all of
8 the allowances free. So that 40 percent difference is
9 significant, but you could say that's a limiting case.

10 BOARD MEMBER SPERLING: What are the numbers here
11 that we're talking? What's the base?

12 PROFESSOR GOULDER: This is the present value of
13 the GDP cost over the period 2012 through 2030, in that
14 particular study. So it reduces -- in other words,
15 Waxman-Markey under free allocation would lower GDP by a
16 certain amount -- I don't have the number -- over that
17 interval. And with 100 percent auctioning, it also lowers
18 GDP, but by 40 percent less.

19 Now, for the state of California, unfortunately,
20 none of the models that we have looked at, not only from
21 the ARB, but also the Charles River model and other
22 models, none of them has looked at -- has done this
23 straight-up comparison, although Charles River has been
24 planning to do this. Their model is capable of it, but
25 they haven't done this.

1 I've done a back-of-the-envelope calculation, but
2 I think we have to be careful how much faith we put in it
3 using some simple diagrams and things like that. My rough
4 estimate is that the cost of the cap and trade component
5 of AB 32 would be about 50 percent higher if you rely
6 exclusively on free provision of allowances versus if you
7 rely on 100 percent auctioning. But that's the
8 back-of-the-envelope calculation. It's based on a rough
9 estimate of the dead weight lost from taxation and the
10 amount of allowance value that's created.

11 BOARD MEMBER SPERLING: I think it would be
12 useful at some point to actually have a memo or something
13 on that, because I think that would be very valuable to
14 us.

15 And you know, I mean, I guess I wonder how big a
16 number that really turns out to be when you take into
17 account what Chairman Nichols said, where 80 percent of
18 the reduction is actually coming from all the other
19 measures that we're talking about for 2020 and then you
20 have offsets on top of that.

21 PROFESSOR GOULDER: I misspoke. When I said
22 50 percent higher, I meant 50 percent increase in the cost
23 of AB 32 as a whole. I compared the gain from using the
24 revenues to cut preexisting taxes under auctioning with
25 the estimates of the overall impacts of AB 32 under free

1 provision. So it actually is 50 percent increase in the
2 overall cost.

3 There is a brief discussion of this in the
4 report. It may be kind of buried, but I'd be happy to
5 provide more of the details of the analysis. I think the
6 report says something like two or \$3 billion savings in
7 the year 2020.

8 BOARD MEMBER SPERLING: Two or three?

9 PROFESSOR GOULDER: Yeah. In the year 2020.

10 BOARD MEMBER SPERLING: Am I allowed to ask one
11 more question?

12 CHAIRPERSON NICHOLS: Okay. And others are
13 waiting in line, but go ahead with your question.

14 BOARD MEMBER SPERLING: The other question is:
15 Including transportation in the cap -- and there was a
16 couple references to it. And I guess what are your views
17 on that? And also in the terms of when we talk about
18 transportation, are you talking about full life cycle
19 emissions or not?

20 PROFESSOR GOULDER: Yes. I don't know if I can
21 speak for the whole Committee, but I can say I was quite
22 happy with the emphasis up to now from the Air Resources
23 Board that seems like they've been leaning towards
24 eventually including transportation within the cap. I
25 think that's a good idea. The general reason is the wider

1 you make the cap, the more potential there is for
2 capturing low-hanging fruit and capturing emissions, the
3 more gains from trade as a result. And so including
4 transportation makes sense.

5 I would make clear that when we say including
6 transportation, we're not saying try to monitor the
7 emissions from each individual automobile. It would be
8 done more upstream at the refinery level.

9 There are some arguments that say it's not worth
10 it, because after all, you're not going to get that big of
11 an increase in the price of gas. And you won't get that
12 much reduction in emissions from transportation.

13 But my counter argument would be whatever the
14 reductions are, they do pay for themselves, because there
15 is an externality in having the price of gasoline better
16 reflect its full social class. Means whatever reductions
17 you get are giving you benefits exceeding the cost. So
18 I'm very much in favor of that, and I believe the other
19 EAAC members were. I know that in the MAC report from
20 two-and-a-half years ago, we embraced include
21 transportation. That was one recommendation I was pretty
22 sure was not going to be followed. And at least it seems
23 up to now there's been a lot of support for it. So I'm
24 happy about that.

25 In terms of -- what was the second aspect of the

1 question?

2 BOARD MEMBER SPERLING: When you say
3 transportation fuels, are you meaning the full life cycle
4 emissions all the way upstream or just at the refinery?

5 PROFESSOR GOULDER: Well, in principle, it should
6 be life cycle. But our report doesn't comment on it and
7 I'm not sure I'm competent enough to think about the
8 administrative issues involved. That is something I would
9 defer to others on.

10 CHAIRPERSON NICHOLS: I think the next question
11 was Dr. Balmes and then on down.

12 BOARD MEMBER BALMES: So again, I want to
13 complement the Committee for what I thought was an
14 excellent report in terms of laying out important issues.
15 And it's quite readable. If I can understand an economic
16 report, it's got to be reasonably clearly written.

17 And I'd also compliment you on your presentation
18 today, both of you.

19 So I have a couple comments, and actually one of
20 those comments is actually to the entire group, including
21 the stakeholders. Since whatever decisions we make as a
22 Board with regard to this program are impacted by
23 political reality, and I think a lot of different
24 political viewpoints are represented in the room, I would
25 like to see the comments be germane to the framework we're

1 working with and starting with the report, even if the
2 report is not going to be taken as the gospel for what we
3 should do. So the 25/75 split after free allowances, I'd
4 like to hear people comment about that from their
5 different perspectives.

6 I'd like to hear people comment about when we
7 should get to 100 percent auction, how many years should
8 that be. And, you know, I have an open mind, but I think
9 instead of sort of arguing at the extremes, I think we
10 should try to focus our comments on what we have before us
11 in terms of the report.

12 CHAIRPERSON NICHOLS: Excuse me. I just want to
13 mention the fact that the report itself is not going to be
14 adopted or rejected. But we are taking comment on it,
15 because we do take it very seriously as input to the
16 design of the regulation.

17 BOARD MEMBER BALMES: And I think that the
18 Committee did their work very carefully. So I think it is
19 an appropriate starting place.

20 And I have a specific question. So when you talk
21 about the Committee recommended the possible use of free
22 allocation for the output-based, free output cost
23 disadvantage to out-of-state competition, could you be
24 more specific about what kind of industries you're talking
25 about there? It's probably in the report that I missed,

1 but if you could refresh me.

2 PROFESSOR GOULDER: Yes. First thing I would say
3 is I would like to clarify what might seem to be a
4 contradiction to what I said earlier.

5 Free allocation in the simple form where you just
6 give out the amount free and it doesn't depend on output
7 decisions of the firm, it's exogenous, that should have no
8 affect on -- should not differ in its affect on choices
9 from the effects of auctioning, because the market price
10 of allowances will be the same in both cases. And it's
11 the margin or that market price that determines the
12 optimal level of output.

13 However, output-based allocation is a different
14 form of free allocation. It's where the amount that the
15 firms get free is based on their level of output. In
16 effect, it's like a subsidy to output, because the more
17 output you do, the more allowances you get. That,
18 therefore, does have an effect on output decisions. And
19 the way it works is there would be sufficient free
20 allocation through output-based allocations to prevent a
21 contraction of output by the trade-exposed
22 energy-intensive industries thereby avoiding a situation
23 where they contract their output and that part of the
24 market is made up for outside the state.

25 In terms of the particular industries that are,

1 in effect, the trade-exposed energy-intensive industries,
2 I might ask my colleague, Steve, to help me here. But
3 cement would be one. It would be an important point.

4 Would petroleum refining be one? And what else
5 would you add to the list, Steve?

6 MR. LEVY: I'm not sure there was a third. Oh,
7 yeah. I thought the utilities were considered in that.

8 BOARD MEMBER BALMES: Okay. Those were the ones
9 that came to my mind, too, but I wanted to make sure I
10 didn't miss one.

11 PROFESSOR GOULDER: I think the Air Resources
12 Board's own analysis of the economic impact displays in
13 some detail which industries are more likely to be
14 effected in terms of trade exposure than others. But
15 those are the three that come to mind.

16 BOARD MEMBER BALMES: My last comment would be,
17 you know, I just read the letter from Governor
18 Schwarzenegger, and I'm now aware of his perspective.

19 And I would say that just something to consider
20 is if we can reduce taxes considerably by a cap and trade
21 mechanism where there's not so much free allocation; I
22 realize we have to ramp up over time and can't do it all
23 it once -- that seems to be something that could resonate
24 with the public with regard to dealing with some of the
25 political realities. So I just throw that out there.

1 CHAIRPERSON NICHOLS: I think many people would
2 be attracted by the notion of replacing inefficient taxes
3 or taxes that we know cause businesses to decide to locate
4 in other places with something that would be more
5 economically rational. Unfortunately for us, in a way, I
6 suppose we don't actually get to make that decision.

7 BOARD MEMBER BALMES: I understand.

8 CHAIRPERSON NICHOLS: So what we're trying to do
9 here -- and it is hard to bear in mind, because you'd like
10 to design the perfect system and then just have it execute
11 itself.

12 But people use the word "politics" as a negative
13 term, and I realize for many people it is. But for me,
14 it's actually a noble term in the sense that you're trying
15 to figure out how in a democratic society where people
16 vote and participate you can come up with something that's
17 sustainable over time. And that means in a situation
18 where, you know, people change their votes all the time.
19 They change their elected officials and so on.

20 So you have to try to create a system that will
21 somehow be able to carry itself on for long enough that it
22 does send the kind of signals we would like to send. It's
23 a great challenge for us as a Board to come out with
24 something that we can implement that will survive that
25 kind of test.

1 Ms. D'Adamo.

2 BOARD MEMBER D'ADAMO: Good segue for some of the
3 questions that I have.

4 And this may fall in the realm of public policy
5 decisions that you indicated that you didn't make
6 judgments on. But I'm curious from an economic
7 perspective from your perspective if we were to direct the
8 distribution of funds to lessen the impact on industries
9 that are covered by the cap and trade and then also if we
10 were to also direct some of the funds towards programs
11 that could further our public policy goals, not sending it
12 back to the general fund, but targeting those funds to
13 conservation measures, public transit, some of the things
14 that are transit, in particular, that are very
15 underfunded. And if we look at the goals of SB 375, the
16 big challenge that the communities are going to have in
17 meeting the targets are directly related to whether or not
18 we're going to be able to obtain funding for transit
19 projects for more livable, walkable communities.

20 So curious if you looked at any of those issues
21 in terms of specifically targeting where the funds go
22 beyond just generally recycled to households, for example.

23 PROFESSOR GOULDER: I think the Committee is very
24 sympathetic in spirit, indeed, the report is as well, to
25 using some of the allowance value for just the purposes

1 you indicated. Those purposes are in what was called the
2 25 percent, the allowance value that doesn't go back to
3 households directly.

4 I listed a couple. I mentioned adaptation and
5 job training. I mentioned obliquely state and local
6 initiatives. That could very well include public transit,
7 for example, funding. And the report does also mention
8 the use of allowance value for conservation measures.

9 We were unable to come up with numbers in a sense
10 to try to measure the bang for the buck from each of these
11 competing options. So we instead just said here are a
12 number of options that look very good. We think the 25
13 percent should go to these kind of things, but we didn't
14 have the resources. Even if we did, I'm not sure we would
15 have been able to come up with very precise estimates as
16 to which particular use of the allowance value we'd offer
17 the most social gain. We thought that was just beyond our
18 abilities.

19 But we also felt that they had enough going for
20 them that we thought it was good to have some allowance
21 value devoted to that as opposed to going back directly to
22 households. I confess that the 25 percent versus 30
23 percent versus 20 percent is somewhat arbitrary. But for
24 some reason, the Committee just seemed to converge on that
25 25 percent. But we couldn't give you hard analysis to

1 justify that. And we certainly aren't giving any analysis
2 to indicate the specifics of the elements within the 25
3 percent. But it would certainly embrace the various
4 actions that you refer to.

5 And you also mentioned some of it could be given
6 back to industry. And we are very much in favor of that,
7 to the extent that it helps with transition assistance or
8 helps provide investments that industries can make that
9 have other laudable social purposes.

10 What we were hesitant to embrace, however, was
11 simply giving allowance value free back to industry in
12 order to sustain profits. And we went through a lot of
13 discussion of that, in part because we felt that the
14 shareholders that you might be trying to help in doing
15 that have already left the scene. So there I realize that
16 there's going to be some controversy to that, but we were
17 relatively unsupportive of giving free allowance value
18 simply for the purpose of sustaining profits, with the
19 exception of the trade-exposed energy-intensive industry
20 where the effort is not to sustain profits, per se; it's
21 to sustain outcome and thus prevent leakage.

22 BOARD MEMBER D'ADAMO: Just a general comment for
23 the Board and staff.

24 I think it would be useful to have a further
25 analysis once we look at the entire package. I kind of

1 look at this as just one tool of many or like dials where
2 these allowances, how much can be free, auctioned off.
3 And same thing with offsets: In state, out of state, and
4 the various configurations that we can make. And I'm in
5 favor of pushing for as much as possible. But we have a
6 very serious economic reality we're looking at. And so I
7 think what it's going to get down to is what is the
8 expert, for me, say in terms of how much relief we can
9 offer to those that are going to be impacted. And it
10 would be useful to look at the entire package in order to
11 get the best advice.

12 CHAIRPERSON NICHOLS: Thank you.

13 Dr. Telles.

14 BOARD MEMBER TELLES: I probably of all people on
15 the Board have the hardest time understanding this. In
16 your presentation, which I almost understood, you
17 mentioned that there is a dead weight value to taxes, like
18 \$1.30. And that you imply there's no dead weight value
19 for allocations. And then when you answered Ms. D'Adamo's
20 question on how to use allocations. You basically said
21 presented things which taxes are used for. You know, all
22 the things that you said, taxes are currently being used
23 for that. So I really have a hard time understanding
24 what's the difference between an allocation and a tax. I
25 mean, if a tax is detrimental to the economy, why isn't an

1 allocation detrimental to the economy?

2 PROFESSOR GOULDER: Fair enough.

3 First of all, we're talking about dead weight
4 loss, and it's the taxes have a cost depending on which
5 tax it is. But the tax will generally have a cost over
6 and above the amount of revenue brought in. So if you
7 bring in a dollar in taxes, you might use that dollar for
8 a number of purposes. And even if the benefit/cost ratio
9 in general is one, you're still losing something from the
10 private sector, because it's distorting the labor market
11 through taxes, reducing labor incentives, reducing
12 incentives to invest through capital taxes.

13 So I think I understand that your focus is then
14 why is it that auctioned -- proceeds from an auction don't
15 have a dead weight loss just like proceeds from an
16 ordinary tax? Well, in fact, they do. They have a gross
17 cost, which is the same. But then there's also something
18 you have to net out which makes them have an advantage,
19 which is there's the environmental benefit, the fact that
20 they're dealing with an externality. They're dealing with
21 the environmental costs that aren't incorporated in
22 prices.

23 So whereas raising ordinary taxes hurts the
24 economy overall because it just creates labor market and
25 capital market distortions, having cautioned revenue, it

1 does cause some distortions in labor and capital markets,
2 but that's more than offset by the environmental gains.
3 So you're actually improving the allocation of resources.
4 You're not worsening it. Economists sometimes make a
5 distinction therefore between on the one hand ordinary
6 taxes, which were called distortionary taxes, and on the
7 other hand either auctioned permits or environmental taxes
8 which are called corrective taxes, because they deal with
9 an externality and they improve resource allocation rather
10 than worsen it.

11 So if we were to ignore the environment entirely,
12 then your intuition is exactly right; there would be no
13 difference. You might as well just stick with our tax
14 system and not try to substitute auction revenue for
15 ordinary tax revenue. But given the externalities and
16 given the concern about the environment -- there is a
17 difference. You can think of cap and trade as a kind of
18 green tax reform, whereas Chairman Nichols said, we're
19 substituting bad taxes or problematic taxes instead for
20 those -- we're introducing another revenue source which
21 has this environmental benefit and makes it on net a
22 beneficial on source of revenue.

23 I hope that helps.

24 BOARD MEMBER TELLES: Thank you.

25 CHAIRPERSON NICHOLS: Other questions or comments

1 before we hear from the public? Staff want to comment?

2 Okay. We'll go to the witnesses, of whom there
3 are many starting with -- I hope you have your list
4 somewhere so you know where you are in line.

5 Norman Pedersen, Brian Cragg, Louis Blumberg.

6 MR. PEDERSON: Good afternoon, Chairman Nichols
7 and members of the Board.

8 I am Norman Peterson here today for the Southern
9 California Public Power Authority.

10 We're concerned about some gaps in the EAAC
11 report. The report says it's important to send a strong
12 price signal to consumers, including electricity
13 consumers, to conserve energy and thereby reduce GHG
14 emissions.

15 The report doesn't recognize that, under its
16 recommendations, two price signals would be sent to
17 electricity consumers: First, a price signal would be
18 sent about the cost of carbon as revealed through an
19 auction of allowances; secondly, a price signal would be
20 sent about the cost of the complementary measures that are
21 going to be undertaken by the electricity sector.

22 The cost of those complementary measures for the
23 electricity sector is going to be substantial. The
24 Scoping Plan puts the cost of just one measure,
25 renewables, at \$133 a ton. Compare that \$133 a ton to the

1 projected cost of allowances, which I understand the new
2 economic analysis is putting in the 20 to \$30 range.

3 Electric utilities can design rates to send a
4 price signal about the cost of carbon as revealed through
5 an auction. However, we believe it would be
6 counterproductive to also require the electric utilities
7 to send a potentially much greater price signal to
8 electricity consumers about the cost of the complementary
9 measures.

10 So we propose an administrative allocation of
11 allowances to electric utilities for the benefit of their
12 consumers. After the administrative allocation of
13 allowances to the electric utilities, there could still be
14 auctioning to develop a robust cost of carbon as
15 demonstrated through the auctioning process.

16 After auctioning, however, there should be a
17 proportional return of auction revenues to the electric
18 utilities. Insofar as the electric utilities are
19 pervasively regulated, you can be assured the value would
20 go to the benefit of consumers, not the shareholders, as
21 Mr. Goulder was concerned about. The revenues would then
22 be available to be used by the electric utilities for
23 concrete GHG emission reduction purposes. The return of
24 revenues would moderate the price signal about the cost of
25 the electricity sector's complementary measures and ease

1 the burden on consumers of moving to a low-carbon economy
2 while leaving in place that other price signal about the
3 cost of carbon.

4 Thank you very much.

5 CHAIRPERSON NICHOLS: Thank you.

6 Mr. Cragg, followed by Louis Blumberg and Strela
7 Cervas.

8 MR. CRAGG: Good afternoon, Chairman Nichols and
9 members of the Board.

10 I'm Brian Cragg representing the Independent
11 Energy Producers Association, or IEP.

12 From what I've been able to read and gather from
13 the reports, it sounds very interesting and I'm looking
14 forward to understanding it much better and digesting it
15 further.

16 I did want to call your attention today to some
17 of the implications to one of the possible allocation
18 proposals that's been made that I don't understand that
19 the Committee endorsed, but it is kicking around and might
20 be brought up again over the next couple months. And
21 that's the proposal that would allocate the allowances to
22 electric utilities, as my friend Norman Pedersen just
23 mentioned. And the rationale for that appears to be that
24 the electric utilities are in the best position to provide
25 benefits to consumers by making use of those allowances.

1 But I think it's important to realize and understand that
2 electric utilities are not just retail providers of energy
3 to retail customers; they're also wholesale -- also
4 compete in wholesale electric markets both at the sale and
5 regional levels and compete with IP members and other
6 independent power producers.

7 I should probably mention that IP represents
8 about 25,000 megawatts of independent non-utility
9 installed capacity in California, which represents about
10 33 percent of the peak demand in California statewide.

11 The California Public Utilities Commission, which
12 regulates investor-owned utilities, has adopted a hybrid
13 market structure that allows electric utilities to compete
14 directly with their electric utility-owned generation with
15 independent power producers. If those electric utilities
16 are allocated, the allowances, then the independent
17 producers -- independent generation owners will have to go
18 to these electric utilities' direct competitors to get
19 those allowances. It's a little bit as if General Motors
20 was given the right to allocate operational permits for
21 the automotive industry and Toyota would have to go to GM
22 in order to get the permits it needs to conduct its
23 businesses.

24 Now, obviously the Board's choice of allocations
25 in the electric utility industry could have a great effect

1 on competition, as I explained this morning -- or this
2 afternoon. IP therefore urges the Board to carefully
3 consider the competitive implications for the electric
4 utility industry of the allocation methodology that you
5 select as a result of this report in the further
6 deliberations and also to consider carefully two
7 principles. One is that entities with the compliance
8 obligation, which include electric generation, may need
9 and should have reasonable access to the allowances. And
10 second, that all generators, whether they're utility owned
11 or independently owned, should be treated equally in the
12 allowance and allocation. They should be treated both in
13 theory and in actual application of the allocation.

14 Thank you very much.

15 CHAIRPERSON NICHOLS: Thank you.

16 Louis Blumberg and Strela Cervas.

17 MR. BLUMBERG: Good afternoon, Madam Chair and
18 members of the Board.

19 I'm Louis Blumberg with the Nature Conservancy
20 based in San Francisco.

21 The Nature Conservancy is pleased and supportive
22 of EAAC's recognition in its report of the importance of
23 the natural landscape and working landscapes in the
24 comprehensive climate policy, and we want to thank them
25 for the work they did to work with us and be responsive to

1 the input that we provided.

2 Madam Chair, as you know well, our natural
3 landscapes provide key roles in the climate policy. They
4 can be part of the problem and part of the solution. They
5 can store greenhouse gases, and they can also be a source
6 of greenhouse gases. So it's appropriate that the report
7 recognize those dual roles both in mitigating greenhouse
8 gas emissions and in helping communities and people
9 respond to the impacts already being felt and those
10 expected through adaptation.

11 Mindful of Dr. Balmes' admonition, I would like
12 to say the Nature Conservancy supports full auction as
13 soon as is feasible, recognizing that there will be need
14 to take some time to learn by doing. What that time frame
15 is, I can't say.

16 We also acknowledge that in the auctioning part
17 of the report, the 75/25 does seem to be a subjective
18 decision made by the Committee. And we wanted to -- I
19 would like to highlight three parts of these 25 percent,
20 if you will. We don't have an alternative number, but we
21 are pleased that in that recommendation that the -- the
22 recommendation that we support says with the allowance
23 value should be invested in natural system adaptation.
24 There are a variety of public benefits that would be
25 approved from that, and we think it's important and

1 appropriate use of the allocation dollars in part to deal
2 with flood, fire, and sea level rise that can protect
3 people and use nature to protect people from these
4 impacts.

5 We also support the recommendation that
6 investment in SB 375 implementation be consistent with
7 related recommendations from the Regional Targeted
8 Advisory Committee, the RRAC, and the Strategic Growth
9 Council. They both acknowledge the important role of
10 conservation, land use, and transportation in addressing
11 climate change.

12 And third, we support the recommendation that
13 local governments and counties, in particular, be eligible
14 to receive allowance value for land use plans and programs
15 that incorporate natural resource protection for climate
16 benefits amongst the many other benefits they provide.

17 And given the recent interest in Washington, D.C,
18 or the progress as elucidated in the Governor's letter,
19 things seem to be moving. And regardless of what happens
20 federally, action at the local level will always be
21 important and remain a key part.

22 So thank you again to the EAAC, and we urge your
23 Board to include these recommendations in your final
24 implementation of AB 32. Thank you.

25 CHAIRPERSON NICHOLS: Strela Cervas.

1 MS. CERVAS: Good afternoon. My name is Strela
2 Cervas. I'm the co-coordinator for the California
3 Environmental Justice Alliance. CEJA is comprised of six
4 of the leading base building environmental justice
5 organizations in the state. So we have the Asian Pacific
6 Environmental Network in Oakland and Richmond; the Center
7 on Race, Poverty and the Environment in San Francisco and
8 the Central Valley, and the Center for Community Action
9 and Environmental Justice in Riverside and San Bernardino;
10 the Communities for a Better Environment in Oakland and
11 Los Angeles; the Environmental Health Coalition in San
12 Diego; and the People Organized to Demand Environmental
13 Rights in San Francisco. And we work to ensure that the
14 most impacted communities participate in our state's
15 policy making.

16 I commend the Economic and Allocation Advisory
17 Counsel's recognition of the commitments in AB 32 to
18 low-income residents and disadvantaged communities
19 throughout the state. As we well know, low-income
20 communities, immigrants, and people of color across the
21 state are disproportionately impacted by environmental
22 health hazards.

23 Just a few comments on the recommendations. I
24 want to focus on the Community Benefits Fund starting with
25 recommendation number ten. We suggest combining the

1 recommendations in number ten and eleven to establish a
2 defined Community Benefits Fund that will be used solely
3 in the most impacted and disadvantaged communities. The
4 Community Benefits Fund would help direct investments in
5 geographically defined neighborhoods for the purposes of
6 achieving our AB 32 goals of reducing greenhouse gas
7 emissions, while reducing local air pollution as well as
8 minimizing the health and economic impacts of climate
9 change.

10 The Community Benefits Fund fulfills the intent
11 and requirements of AB 32 to direct investments into the
12 most disadvantaged communities. It can provide for things
13 like pollution reduction, job training, and job creation
14 problems, increasing the availability of buses and
15 training, as well as fair subsidies for mass transit
16 riders, everything that we need in our community.

17 The funds would greatly benefit places like the
18 San Joaquin Valley that is experiencing high rates of
19 pollution-related birth defects or places like Mira Loma
20 and Riverside and San Bernardino where communities that
21 live next to the freeways, the truck routes, and trains
22 suffer alarming rates of respiratory illness.

23 So we really urge the Air Resources Board to
24 provide specifics to make the EAAC recommendations
25 operational. We also support the approach that the

1 legislature make the final decisions about the
2 allocations. And I thank you for your time.

3 CHAIRPERSON NICHOLS: Thank you.

4 Sophia Parino and Shankar Prasad and Tim Tutt.

5 MS. PARINO: Good afternoon. My name is Sophia
6 Parino with the Center on Race, Poverty, and the
7 Environment.

8 And I would also like to express my
9 organization's support for the Community Benefits Fund,
10 which was in the EAAC report Recommendation 10, I believe.

11 AB 32 and the EAAC recognize that there's
12 disproportionate impacts from global warming as well as
13 possibly from the implementation of AB 32, and that is
14 communities should be protected. And we feel that the
15 Community Benefits Fund is really the best way to work
16 within AB 32 before these communities. It directs
17 investments to the most impacted communities. And it also
18 is an excellent way to fulfill your requirement under AB
19 32 to invest in these disadvantaged communities.

20 The Community Benefits Fund really avoids the
21 shortcomings of just a contingency fund, which was
22 Recommendation 11, where in the contingency fund you're
23 waiting for the harm to happen and then putting the burden
24 on the community to show that there was a harm before
25 going into address that harm.

1 And what we would urge the Board to do is to
2 establish a defined Community Benefits Fund that could
3 include a contingency fund but really focuses on
4 preparation and prevention. And that this would really
5 address the needs of these communities.

6 We need the strategies in the Community Benefits
7 Fund to respond to the existing higher levels of air
8 pollution and the anticipated disproportionate health
9 impacts from climate change in our communities. And we
10 would urge the ARB to provide specific rulemaking within
11 the cap and trade rules that are coming up with the
12 regulation that make these recommendations from the EAAC
13 operational and especially looking at our communities and
14 the Community Benefits Fund and making sure that there are
15 investments there.

16 Thank you.

17 CHAIRPERSON NICHOLS: Thank you.

18 Shankar and Tim Tutt and David Arrieta.

19 MR. PRASAD: Good afternoon. Very rarely I get
20 the opportunity to speak to you twice in a day and do so
21 favorably.

22 Chair Nichols and Secretary Adams, we are very
23 pleased and applaud you in assembling this esteemed set of
24 intellectuals whose expertise and guidance will help us in
25 shaping the market component of the Greenhouse Gas

1 Reduction Program.

2 We are thankful to Dr. Larry Goulder's leadership
3 and EAAC's efforts for following an excellent open public
4 process and active participation in their meetings.

5 We also appreciate the efforts of Dr. Jim Boise
6 and his commitment in bringing AB 32 to the low-income
7 communities and bringing the attention of the whole
8 Committee to the issue of how to ensure that disadvantaged
9 communities are benefited and continue to be economically
10 viable.

11 We sincerely urge this Board to endorse the
12 report and include them after some serious deliberations
13 into your cap and trade rulemaking. Though you may not be
14 able to make a specific decision, I think you will be able
15 to provide some specific guidance in order to ensure that
16 these recommendations become operational as we move
17 forward.

18 We agree and fully support EAAC's recommendation
19 of 100 percent auctioning and coming to the question Dr.
20 Balmes posed to all of us. I think about the five-year
21 period to the 100 percent auctioning within about five
22 years is a reasonable place to start thinking about.

23 And we also support the previous two who spoke in
24 favor of the committee's benefits. I've talked to you
25 many times about that, so I do not want to go into that

1 again. But we urge you all to combine the two,
2 Recommendations 10 and 11 so that the committee benefits
3 fund is formed with a dedicated portion of the allowance
4 value.

5 One of the key things -- one of the things that
6 was mentioned about the contingency fund is the monitoring
7 piece. We believe monitoring across the state at a
8 community level is very expensive and very unlikely
9 capable of differentiating minor changes.

10 Also, in this economic time, also changing
11 economic times, keeping the contingency fund is highly
12 uncertain. And in the context of EAAC's recommendation of
13 the dividend policy, we concur with Dr. Boise that both
14 policies can work together and not mutually an exclusive.

15 Thank you for the opportunity.

16 CHAIRPERSON NICHOLS: Thank you. Thanks for your
17 continuing participation.

18 Tim Tutt

19 MR. TUTT: Thank you for the opportunity to speak
20 today, Chair Nichols, Board. We appreciate your attention
21 to this critical component of AB 32 implementation, and we
22 appreciate the hard work of the EAAC in developing their
23 recommendations to you.

24 SMUD was an active participant in the EAAC
25 process, as were all the utilities in the state. As I

1 mentioned at your last Board meeting, the utilities
2 universally recommend a different structure than the EAAC
3 has for the electricity sector. The electric sector is a
4 key strategic stakeholder for AB 32, representing about a
5 quarter of the GHG emissions, but more importantly
6 representing significantly more than a quarter of the
7 reductions that can be achieved or are going to be
8 achieved through efficiency and renewable measures in AB
9 32 complementary policies.

10 Our position is simple. We believe that the
11 electric sector allowances should be administratively
12 allocated to the utilities on behalf of our customers,
13 required to be sold by the utilities at an auction, an
14 independent auction, and that the revenue then be used by
15 the utilities for investments in AB 32 related activities,
16 efficiency, renewables, and in the longer run,
17 transportation, electrification, smart grid, things of
18 that sort.

19 As the EAAC report recognizes, there remain
20 market barriers to energy efficiency in the state.
21 Utility efficiency programs are required to address these
22 barriers. Price signals alone are not sufficient to
23 achieve the 100 percent cost effective energy efficiency
24 that is a goal of the scoping plan and the energy policies
25 agencies in the state. Utilities have a robust and

1 growing efficiency program in place and can
2 cost-effectively invest allowance revenue to support and
3 further expand these programs.

4 The utilities is also the entity that makes
5 resource purchase decisions in the state in the electric
6 sector and can best use these allowance revenues to
7 support high cost renewable program purchases to achieve
8 the 33 percent renewable portfolio standard.

9 This position is similar to the position -- the
10 recommendations from the Energy Commission and the Public
11 Utilities Commission in their 2008 report to the ARB.

12 And in closing, we believe that using allowance
13 revenues to invest in AB 32 related policies, rather than
14 concentrating on raising prices, is a key component of
15 what you should establish in allowance policy for the
16 state. And the LDCs are a critical partner in this
17 investment.

18 You have an opportunity to once again lead the
19 nation and influence the off-again/on-again debates that
20 are happening at the national level. We urge you to
21 consider the utility role as you move forward this year.

22 Thank you.

23 CHAIRPERSON NICHOLS: Thank you.

24 David Arrieta and Frank Harris and Susie Berlin.

25 MR. ARRIETA: Good afternoon. My name is David

1 Arrieta, and I'm here for the Western States Petroleum
2 Association.

3 Today, we'd like to focus our comments on the
4 leakage issue. But first we'd like to say that we, too,
5 were disappointed that the Committee did not consider some
6 of the legal and other hurdles that might impinge on their
7 recommendations.

8 But having said that, we totally concur with the
9 Committee that preventing leakage is critical to the
10 implementation of AB 32. And we concur with their
11 statement that if energy-intensive trade-exposed industry
12 is -- if leakage is not addressed for energy-intensive
13 trade-exposed industry, they will be significantly
14 impacted. That is why we support their recommendations
15 that fuel production be fully analyzed for leakage
16 impacts.

17 But we also believe that crude oil production is
18 an energy-intensive trade-exposed segment of the industry
19 and that that element or sector should be fully evaluated.

20 We believe that -- the Committee recommends a
21 couple of mitigating measures for how to address leakage.
22 One is border adjustments, and the other is free
23 allocation. We believe that free allocation is the
24 appropriate way to deal with it, considering that some of
25 the other legal issues were not addressed.

1 And then finally, we'd like to concur with the
2 baby steps approach that was outlined earlier today by
3 Chairman Nichols. We think that transitioning into the
4 2020 time frame is really important and that it needs to
5 be done in, as you said, baby steps. And we support that
6 approach.

7 Thank you.

8 CHAIRPERSON NICHOLS: Thank you.

9 Frank Harris and Susie Berlin.

10 MR. HARRIS: Hello. Frank Harris, Southern
11 California Edison.

12 Appreciate the opportunity to speak to the Board
13 today.

14 SCE supports the goals of AB 32 and appreciates
15 the opportunity to participate in the ongoing effort to
16 achieve -- to develop the rules to implement the
17 legislation. Certainly, the EAAC Committee work and their
18 report has worked to considerably move the ball forward
19 and to increase the shareowner understanding.

20 As Professor Goulder indicated, the regulated
21 utilities are uniquely positioned to be able to pass
22 allowance value back to the customers. It's not a
23 question of increasing or developing profits in the
24 regulated utility sector.

25 Additionally, as a result of the regulated

1 rate-making process, the regulated utilities are in a
2 position to still be able to pass along the proper price
3 signal in rates to our retail customers so they are able
4 to make demand decisions that are consistent with the
5 economic and the environmental goals outlined in the EAAC
6 report.

7 The PUC, in their joint recommendation with the
8 Energy Commission, has already indicated its interest in
9 accomplishing that goal.

10 As some other utility members representatives --
11 Southern California Edison is one of them -- supports an
12 administrative allocation of allowances to the utility.
13 And a key part of this is that those allowances then be
14 placed into an open and transparent auction so that all
15 regulated entities can have equal and objective access to
16 those allowances.

17 Doing this would address, for example, the
18 concerns that Mr. Cragg indicated from IEP. This would
19 allow the generators, the regulated generators, regulated
20 utilities, every AB 32 regulated entity equal access to
21 these allowances. The revenue from that auction being
22 returned to the regulated utilities according to the
23 initial administrative allocation could then be used for
24 many of the complimentary measures that have been
25 developed in the Scoping Plan and generally to reduce the

1 economic burden that would be imposed on our customers.

2 Thank you very much.

3 CHAIRPERSON NICHOLS: Thank you.

4 Susie Berlin and Vien Truong.

5 MS. BERLIN: Chairman Nichols, members of the
6 Board, my name is Susie Berlin, and I represent the
7 Northern California Power Agency. NCPA is a joint powers
8 agency comprised of publicly-owned utilities of all
9 different sizes.

10 NCPA and its members have been aggressive in
11 their efforts to achieve the goals of AB 32 and reduce
12 their carbon footprint and look forward to continuing to
13 do so.

14 However, NCPA has concern with some of the
15 recommendations in the report regarding the use of auction
16 value, program value, and the recommendation for a full
17 auction. AB 32 sets out a very specific goal and
18 objectives for the state, and that is to reduce GHG
19 emissions in California. To do this, we must not only
20 capture the low-hanging fruit, such as increased energy
21 efficiency, but also transition to a low-carbon economy.
22 Achieving these objectives will come with a very high but
23 necessary price tag. Accordingly, it is paramount that
24 any value that comes from a Cap and Trade Program be used
25 directly to achieve the mandates set forth in AB 32.

1 These funds must be used to expand existing GHG reducing
2 programs, such as energy efficiency and renewable energy
3 procurement, further research and development of low
4 carbon technologies to help transition into a low-carbon
5 economy and protect our most valuable customers in
6 transition to that economy. This cannot be achieved by
7 giving each Californian a mere fraction of the value.
8 Rather, these goals will be more economically and
9 efficiently achieved by direct investments in the programs
10 I just mentioned.

11 Achieving these goals can also be facilitated by
12 the allocation of allowances directly to electric
13 utilities. NCPA supports the allocation of allowances to
14 retail electric providers to use for the benefit of their
15 customers and to achieve the goals of AB 32. As Dr.
16 Goulder noted, electric utilities are uniquely situated,
17 but they're also subject to a number of mandates for
18 complementary measures that must be funded in addition to
19 the Cap and Trade Program. These measures, such as
20 increased CHP and renewable energy, are going to be costly
21 but necessary. Allowance value can be used by utilities
22 to reduce the rate impacts for their customers, while
23 still preserving the price signals for the carbon cost as
24 they relate to the Cap and Trade Program itself.

25 Utilities have existing effective and direct

1 relationships with all Californians, and this relationship
2 is ideal to deliver the GHG reductions through the
3 programs that are already in existence and expansion of
4 the programs. These programs directly benefit utility
5 customers by controlling rate increases, and this is key
6 to directly achieve the goals of AB 32.

7 Allocation to utilities does not have to put
8 utilities in a position of competitive advantage with
9 independent energy producers and the market design --
10 program design issues such as those mentioned by Norm
11 Pedersen for NCPA and Frank -- for SCPPA -- and Frank
12 Harris for Edison can protect against those kinds of
13 concerns.

14 Thank you very much.

15 CHAIRPERSON NICHOLS: Thank you.

16 Vien Truong, Kate Beardsley, and Annebell
17 Guierro.

18 MS. TRUONG: Thank you, Chair Nichols and Board
19 members, for your leadership on the implementation of AB
20 32.

21 My name is Vien Truong. I'm here on behalf of
22 the Green for All. Green for All is a national
23 organization working to build an inclusive green economy
24 strong enough to let people out of poverty. Our
25 organization is proud to have worked with leaders in civil

1 rights, faith, labor, environment, and community groups in
2 shaping and winning unprecedented legislation on the
3 federal, state, and local levels across the country.

4 We're here today, because your guidance how to
5 shape California's Cap and Trade Program will have a
6 significant impact on the rest of the nation. In my work
7 with state legislators across the nation, many have told
8 me that they look to you for guidance on how the shape
9 their policies. Thus, we ask for your continued
10 leadership on getting us an environmentally sound future.

11 As such, we encourage you to adopt the EAAC
12 recommendations. The Economic and Allocations Advisory
13 Committee has demonstrated exemplary leadership by
14 adopting recommendations that takes us towards
15 implementing AB 32 in a way that protects and lifts up
16 communities most vulnerable to the impacts of climate
17 change. The effects of climate change threatens all
18 people, but it's the impoverished who suffer the most from
19 heat-related deaths, floods, lost jobs, and air pollution.
20 Poor people and people of color are the first to be
21 devastated when climate disaster strikes.

22 As such, we commend the Advisory Committee for
23 drafting recommendations that balances environmental and
24 economic concerns, and we encourage the Board to adopt
25 these recommendations.

1 We are especially supportive of the idea of a
2 Community Benefits Fund that would direct the investments
3 to the communities most in need. A communities benefits
4 fund will help vulnerable communities achieve the goals of
5 AB 32 and reducing greenhouse gas emissions, ensure that
6 residents in these communities have access to necessary
7 training, and ensures that the disadvantaged communities
8 have the necessary tools to transition to a green economy.
9 These goals are key to developing an equitable green
10 economy and thus should be prioritized in the allocations
11 of funds.

12 Our country is facing multiple disasters and
13 crises. You are in a position to guide us to a future
14 that is cleaner, fairer, and more just.

15 We are here to support your bold leadership. We
16 support this, and we begin with the adoption of the EAAC
17 recommendations and making sure that these priorities are
18 valued before all else.

19 Thank you.

20 CHAIRPERSON NICHOLS: Thank you.

21 Kate Beardsley.

22 MS. BEARDSLEY: Good afternoon. Thanks for the
23 opportunity to speak.

24 My name is Kate Beardsley. I'm a manager in
25 state agency regulations for Pacific Gas and Electric

1 Company.

2 PG&E and our customers share California's desire
3 to continue its leadership on climate change. We were the
4 first investor-owned utility to support enactment of AB
5 32. And our customers have invested in and will continue
6 to invest in customer energy efficiency programs and a
7 clean electric generating portfolio so that our emissions
8 are among the lowest of any utility in the nation.

9 PG&E is committed to achieving AB 32's goal while
10 managing cost for our customers. As you have heard from a
11 couple of other utilities, the electric sector is
12 responsible for about 25 percent of California's
13 greenhouse gas emissions, yet our customers are being
14 asked to obtain a much higher percentage of the total AB
15 32 reductions as a result of requirements to invest in
16 increased renewable resources, energy efficiency, combined
17 heat and power, in addition to participating in the Cap
18 and Trade Program.

19 While we support the overarching goals of AB 32
20 and believe that complementary measures, such as energy
21 efficiency, have the potential to deliver cost-effective
22 emission reductions, we're concerned about over-burdening
23 our sector without providing sufficient allowances to
24 utilities to help mitigate these costs and to help ease
25 the transition to the low-carbon economy.

1 We recognize that EAAC recommends against
2 allocating allowances to utilities for our customers'
3 benefit in order to avoid masking the price signal from
4 the cap and trade. However, we are concerned about the
5 impacts of the cumulative costs of AB 32. Regardless of
6 how AB 32 is implemented, California utility customers
7 will be asked to bear a significant portion of the cost,
8 whether it is via allowances in a cap and trade or via the
9 implementation of programs such as increased renewable
10 resources.

11 For this reason, we also believe that allowances
12 should be allocated to electricity customers via
13 California's utilities to help mitigate the cost of AB 32
14 and to also help advance the goals of the program.

15 Following the allocation, we support the notion
16 that allowances can be auctioned on a non-discriminatory
17 basis to other complying entities.

18 We urge the ARB to join federal legislators, the
19 California Public Utilities Commission, the California
20 Energy Commission, and the many other institutions in
21 recognizing that an allocation of allowances to electric
22 utilities for the benefit of their customers is
23 appropriate and fair, given the important role our
24 customers are destined to play in helping the entire state
25 meet its greenhouse gas reduction goals.

1 Thanks again for the opportunity to speak.

2 CHAIRPERSON NICHOLS: Thank you.

3 Annebell Guierro, are you here?

4 Betsy Reifsnider.

5 MS. REIFSNIDER: Thank you so much. I'm here
6 representing Catholic Charities and the Stockton Diocese.
7 And we're here to say thank you for these recommendations
8 and this report.

9 Specifically, I'd like to point to Section 6.4,
10 the provision of allowance value on page 66 and 67 as it
11 relates to low income and disadvantaged communities in
12 geographically defined areas. We agree with those EAAC
13 members and with many of the previous speakers, including
14 Dr. Shankar Prasad, who recommended that of the allowance
15 value to be devoted to investment, that a specific
16 percentage be set aside for investments in disadvantaged
17 communities through a defined Community Benefits Fund.

18 Now, our Diocese includes Stanislaus and San
19 Joaquin Counties where the unemployment rates are above
20 the California average, where the poverty rates are 14
21 percent, which is also above the California average. In a
22 place like south Stockton specifically, the poverty rate
23 is 29 percent. And in other places, such as Modesto, in
24 the unincorporated underserved areas, we have 30
25 unincorporated areas in Modesto. They are underserved.

1 The resident lack street lights, sewers, sidewalks. So a
2 geographically defined Community Benefits Fund would
3 profit these communities greatly.

4 And then, finally, we'd like to agree with the
5 EAAC that 100 percent of allowances should be auctioned,
6 just as Dr. Goulder recommended. And we would like to
7 commend the EAAC. We would like to commend the Board.
8 And we do hope that you will adopt these recommendations.

9 Thank you very much.

10 CHAIRPERSON NICHOLS: Thank you.

11 Ralph Moran and Michael Murray and Sahar Shirazi.

12 MR. MORAN: Madam Chair, Board members, thank
13 you.

14 I'd like to thank Professor Goulder and the rest
15 of the EAAC for a well done analysis and especially thank
16 him for the open and inconclusive process. I know that
17 requires a lot more work, but it's very much appreciated.

18 I think the EAAC report makes very clear how
19 crucial it is that climate change policy address leakage.
20 Failure to address leakage results in an overstatement of
21 GHG emission reductions, because emissions are simply
22 shifted to non-regulated areas rather than reduced. Many
23 times, jobs follow these emissions.

24 For instance, a report on the potential for
25 climate policy to result in emissions leakage in U.S.

1 refining concluded that emissions reductions would be
2 largely offset by emission increases in non-U.S.
3 refineries and that, over time, reliance on product
4 imports could double. Coastal refineries such as those in
5 California would be particularly effected.

6 So though the EAAC clearly makes the case for
7 addressing leakage, unfortunately, we can't agree with
8 what appears to be their preferred approach. And in the
9 EAAC's defense, they have admitted they're trying to think
10 outside the box and challenge the status quo.
11 Unfortunately, most of us involved in policy have to work
12 very much inside the box. So specifically, the EAAC
13 proposal for use of border taxes on imported goods to
14 address leakage, even if it were legal, we don't see it as
15 viable or attractive.

16 So because aside from being highly controversial
17 and complex, you have to try to figure out the carbon
18 footprint for every car, computer, and cup that came into
19 California or gallon of gasoline. That method would
20 saddle Californians with paying the cost of the carbon
21 footprint of other countries and other states.

22 Luckily, a much easier solution exists. And that
23 is to protect California industry who is trade exposed
24 through the proper allocation of allowances. This method
25 is much simpler, less controversial, and will not require

1 Californian's to pay for the carbon footprint of other
2 nations or states.

3 Thank you.

4 CHAIRPERSON NICHOLS: Thank you.

5 Mr. Murray.

6 MR. MURRAY: Good afternoon, Madam Chair and
7 members of the Board.

8 My name is Mike Murray, and I'm the Regional Vice
9 President of State Government Affairs for Sempra Energy,
10 the parent company of San Diego Gas and Electric.

11 I first want to take this opportunity to thank
12 Chair Nichols for her leadership and guidance in what has
13 been a very, very lengthy process with a lot of
14 stakeholder involvement and a lot of transparent
15 discussion. I think it's been a great dialogue and shows
16 you some of the things that we are looking forward to
17 going forward and some of the challenges we have to
18 implement AB 32.

19 Sempra is committed the working with ARB to
20 ensure that AB 32 is implemented to achieve the law's
21 goals in a cost-effective manner.

22 As you've heard before, the electricity sector is
23 being asked to implement mandatory measures, including a
24 33 percent RPS, enhanced energy efficiency programs, and
25 more combined heat and power, in addition to being a

1 participant in a Cap and Trade Program.

2 There have been some financial analysis which
3 have concluded that a cap and trade is less expensive than
4 mandatory measures, while cap and trade on top of
5 mandatory measures will further increase costs to
6 California utility customers.

7 If auctioning of allowances is carried out as
8 EAAC has proposed, we believe that the economic impacts on
9 California electric customers would be reduced if a
10 substantial portion of these auction revenues are returned
11 to utilities to partially compensate them for the cost of
12 implementing mandatory measures.

13 We also strongly support the Governor's views as
14 stated in his letter of March 24th that a free allocation
15 of allowances and a robust offset market will
16 significantly reduce the economic impacts on business and
17 residents in California without compromising the intended
18 goals of the state.

19 Finally, we also agree with the Governor's view
20 that if allowances are freely allocated, they are
21 distributed in a manner that rewards companies that have
22 already made significant investments in energy efficiency
23 and carbon reduction.

24 Thank you very much.

25 CHAIRPERSON NICHOLS: Thank you.

1 Sahar Shirazi and then Torm Nompraseurt and Mari
2 Rose Taruc.

3 MS. SHIRAZI: Good afternoon. My name is Sahar
4 Shirazi, and I'm here representing the Green Collar Jobs
5 campaign for the Ella Baker Center for Human Rights in
6 Oakland. We are a nonprofit dedicated to uplifting our
7 communities through education, advocacy, and formal policy
8 work. In particular, the Green Collar Jobs Campaign works
9 to ensure equal opportunities for low-income people of
10 color in the emerging green economy by promoting greater
11 job training, job creation, and closing the climate gap.

12 We'd like to thank you for holding this public
13 meeting and allowing all of our voices to be heard as well
14 as creating an open and engaging process in implementing
15 California's Greenhouse Gas Reduction Program.

16 The EAAC report recognizes the importance of
17 addressing climate gap issues in disadvantaged and
18 low-income communities. These geographically designed
19 areas have suffered the most from pollution and will
20 struggle the most with the consequences of the climate
21 crisis, including increased air pollution, associated
22 health issues, increased costs of living, and lost jobs.

23 In order to reverse the trend of jobless recovery
24 and stimulate our economy, we must invest in job training
25 and creation. The revenues generated by AB 32 are key in

1 creating the careers of the future, which will uplift our
2 finances, our state, and the communities that were left
3 behind in this economy.

4 As we form this new green economy, we must create
5 opportunities in all communities and focus on those that
6 are most vulnerable. This is why we support the
7 establishment of the Community Benefits Fund, which will
8 protect California's most vulnerable citizens while
9 creating local green jobs to lift communities out of
10 poverty.

11 We urge the CARB Board to consider these
12 recommendations and incorporate them into the implementing
13 of AB 32, specifically by establishing a Community
14 Benefits Fund with the percentage of the proceeds of
15 auctioned allowances. This fund will help strengthen the
16 neighborhood's response to environmental crisis and reduce
17 the overall negative impact of climate change in these
18 areas.

19 Recognizing that EAAC also recommended a dividend
20 policy, we want to point out that this concept is not
21 mutually exclusive from a Community Benefits Fund. These
22 policies can work together, alleviating the higher cost
23 from increased energy prices, through a dividend policy to
24 protect low-income consumers while establishing a
25 strategic policy, namely the Community Benefits Fund, to

1 respond to the existing higher levels of pollution and
2 anticipated economic and health impacts of climate change
3 in disadvantaged communities. Our new economy must not
4 have any throw away resources, neighborhoods, or people.

5 The emerging green economy has the potential to
6 be this generation's greatest possibility frontier. We
7 have the unprecedented opportunity to simultaneously
8 reduce our greenhouse gas emissions, improve our economy,
9 and shrink the climate gap by addressing issues of health
10 care, air pollution, accessible transportation, green job
11 creation, and environmental inequity in low-income
12 communities of color.

13 Let's take every step necessary to make sure we
14 fulfill the potential which we are presented. Let's
15 recover California's economy and lead the rest of the
16 nation in the creation of high quality green jobs that
17 puts citizens back to work today and ensures us all a
18 cleaner, safer, more equitable tomorrow.

19 Thank you.

20 CHAIRPERSON NICHOLS: Torm Nompraseurt.

21 MR. NOMPRASEURT: Thank you, Mr. Chair Nichols
22 and Board.

23 First of all, I really commend your leadership in
24 terms of the reason of the EAAC to have the report.

25 And secondly, want to commend the EAAC, all the

1 members of the EAAC, especially Dr. Goulder who bring the
2 report.

3 I'm from Richmond, and Richmond community have
4 been suffer the most pollution in over 100 year. And
5 there are many diverse low-income community from community
6 of color. And I live there 35 year. And I know what it
7 is and how it like.

8 And the EAAC recommendation, especially I want to
9 commend in term of your morale, principle, and wisdom in
10 term of look at the community that been suffering and
11 disproportionate for many, many year. Richmond, over 100
12 year.

13 And that's not being the equal of the share. But
14 I think at least this is start, a good place to start.
15 And I'm very commend on that.

16 And also California we seem to take a lot of
17 leadership. And I think California leadership start in
18 this room and all of our Board here and also
19 recommendation of the EAAC who also bring your hand to
20 help out the community like us in Richmond who have been
21 very suffering for many year.

22 And this fund will be helpful to our community
23 and also our state here, also the nation. And also I
24 thank you so much for open public process.

25 And we, the community, and also the Asian Pacific

1 Environmental Group is very hold the value of the public
2 transparency. And I commend you for that. And thank you
3 for speaking today.

4 CHAIRPERSON NICHOLS: Thank you very much for
5 coming.

6 Mari Rose Taruc.

7 MS. TARUC: Good afternoon, Chairwoman Nichols
8 and the Resources Board.

9 My name is Mari Rose Taruc here representing the
10 Asian Pacific Environmental Network, who's a member of the
11 California Environmental Justice Alliance that organizes
12 throughout the state.

13 APEN organizes hundreds of low-income
14 Asian-Pacific American families in Oakland and Richmond
15 living next to congested freeways and polluting
16 industries.

17 This morning, I had to leave my son who had an
18 asthma attack to be here, so I hope you hear and take to
19 heart what we have to say.

20 We support the Community Benefits Fund that the
21 EAAC report recommends. We applaud the EAAC's findings to
22 include a Community Benefits Fund and urge the California
23 Air Resources Board to adopt these recommendations.

24 The Community Benefits Fund is a vitally
25 important piece of closing the climate gap in California

1 where low-income communities of color experience a
2 disproportionate burden of the health impacts of
3 greenhouse gas pollution from adjacent polluting
4 facilities, like the Richmond Chevron refinery that's in
5 our neighborhood, which happens to be the number one
6 greenhouse gas emitter in California, to the 880 freeway
7 that we can see and smell from the windows in our office
8 in Chinatown as it carries goods to and from one of the
9 busiest ports in this country.

10 From our work with the California Environmental
11 Justice Alliance, we see across California the climate gap
12 where low-income minority communities are the most
13 vulnerable to extreme climate event. In Oakland, the
14 poorest homes are not only located next to polluting
15 industries, but also next to the shoreline, putting us at
16 most risk from damage from sea level rise.

17 And because instead of a forest of trees, we have
18 a forest of industries, because we're vulnerable to heat
19 island effect that effect residents in extremely hot days.

20 And because we are poor, lack insurance, and
21 already have many health problems, we are the least able
22 to bounce back from any climate disasters that are
23 projected.

24 We didn't come here to illustrate these problems.
25 We wanted to tell you about the plans we have for

1 greenhouse gas reductions as well. In fact, we have begun
2 the work of rebuilding our communities to be healthy and
3 vibrant while linking it to greenhouse gas emissions.

4 In Oakland, we are working on a transit-oriented
5 development at the BART train system in the Bay Area. We
6 have plans to link our affordable housing and public
7 health ideas to green infrastructure and green jobs. We
8 know the Community Benefits Fund can give a boost to this
9 important project as well as different communities like
10 ours around the state doing the same thing.

11 We see the Community Benefits Fund as a
12 significant step in the right direction and correcting the
13 injustice from historic pollution to the future of climate
14 disasters. We encourage you to adopt the EAAC's
15 recommendation to implement the Community Benefits Fund.

16 Thank you.

17 CHAIRPERSON NICHOLS: Thank you for your strong
18 statement.

19 Bob Lucas.

20 MR. LUCAS: Thank you very much.

21 My name is Bob Lucas. I'm here today
22 representing the California Council for Environmental and
23 Economic Balance, also known as CCEEB.

24 When reviewing this report and considering its
25 recommendations, perspective and context is very

1 important. To an economist, the value of an allowance
2 does not represent a cost to the economy. But I can
3 assure you to the people purchasing the allowance that the
4 value of that allowance is very definitely a cost. And
5 while it may be comforting to know that paying a tax is
6 also not a cost to the economy, I also know when I pay
7 taxes, I consider that a cost to me.

8 And with regard to the 7 to \$22 billion in
9 allowance value that we're faced with or was estimated for
10 2020, I think it's also very likely that the people that
11 are going to need to pay that value or to monetize that
12 value will consider that to be a cost and a quite
13 substantial cost at the same time as they are also
14 incurring substantial costs in investments in projects to
15 actually reduce emissions to comply with AB 32. As I say,
16 context is important here.

17 CCEEB believes that designing a working market is
18 the most important effort before this Board at this time.
19 We are very concerned that we have verified offsets,
20 third-party verifiers, approvals, IT systems, linkages,
21 organization, dispute resolutions, early warning systems
22 in place. That's going to be a very daunting task. But
23 it's necessary in order to have a regulatory compliance
24 mechanism.

25 We believe that the Board should develop a work

1 plan with clear completion deadlines of tools,
2 organization policies, and systems that must be in place
3 for regulated entities to comply with the regulation.

4 As it's being developed, should be explicit,
5 transparent, alignment with current international,
6 national, regional programs would be the best opportunity
7 for a California Cap and Trade Program to work. Without
8 aligning definitions and policies, California will be
9 isolated and the program will suffer significant leakage,
10 and that was addressed earlier.

11 We believe that it is very important to phase in
12 a transition period. In order to avoid economic
13 uncertainty, any early auction should be phased and
14 gradual.

15 The Board should proceed deliberately and
16 cautiously in order to maintain market liquidity, prevent
17 price shocks, and leakage.

18 And with regard to leakage, this topic is raised
19 several times in this report, and it's also raised in the
20 EAAC report on the economic analysis that leakage could be
21 quite substantial. This significant potential for leakage
22 emphasizes the need for a transition period to address
23 uncertainties.

24 CCEEB also believes that it's important to
25 maintain flexibility in the program to link with these

1 regional, national, international trading programs. Along
2 these lines, ARB should adopt definitions and market
3 principles in order to allow future linkage as programs
4 are developed. A large auction would create problems with
5 future linkage.

6 With regard to revenue, we believe the allowance
7 revenue should be used for AB 32 purposes and not create
8 entitlement programs. The use of allowance values once
9 monetized should be used to reduce the cost of direct
10 measures. And I refer you to the last sentence of the
11 Governor's letter. I'll reiterate the closing phrase that
12 addresses the need for the Board to be sensitive to
13 challenges our businesses face, particularly until our
14 national economy fully recovers from this recession.

15 Thank you for your indulgence.

16 CHAIRPERSON NICHOLS: Thank you, Mr. Lucas.

17 I'm afraid I doodled on my list. And therefore
18 I'm not sure -- is Brenda Coleman here to testify on this
19 item? Or was her name taken off? Not seeing Brenda
20 Coleman. You weren't going to testify? You were. Okay.
21 Good. I didn't take you off.

22 MS. COLEMAN: Good afternoon, Madam Chair and
23 members of the Board.

24 I had originally taken back my card to testify,
25 but I do feel compelled to come up here and just say first

1 of all thank you so much to you all and to the EAAC for
2 their hard work and for their recommendation.

3 We appreciate that you, Madam Chair, expressed
4 that you will be taking considerations and taking a look
5 at other avenues outside of the recommendations that have
6 been brought to you before the EAAC.

7 Today, we'd just like to concur that what
8 something that has already been mentioned several times in
9 that what the Governor mentioned in his letter to you
10 yesterday, which he states that a full auction of
11 allowances may be too abrupt a transaction with great cost
12 to those capped industries. We concur that a free
13 allocation or at least a system where the auctioning of
14 allowances are kept at de minimis levels would be the most
15 cost effective way to reduce greenhouse gas emissions in a
16 manner least burdensome to businesses. And, again, as
17 Governor Schwarzenegger mentioned in his letter, rewards
18 companies that already made significant investments in
19 energy efficiency and carbon reductions.

20 Overall, it is vital that a Cap and Trade Program
21 be designed in a way that mitigates extreme financial
22 burden to businesses at a time like the present when
23 unemployment is at an all-time high and our economy is
24 struggling.

25 Carbon reduction strategies must be done so in a

1 cost effective manner, recognizing the challenges of
2 businesses in order to achieve the goals set forth by AB
3 32.

4 We thank you for your consideration and look
5 forward to continuing.

6 CHAIRPERSON NICHOLS: Thank you very much. Okay.
7 Malak Seku-Amen and then Nile Malloy and Rafael
8 Aguilera.

9 MR. SEKU-AMEN: Good afternoon, Madam Chair and
10 members of the Board.

11 I'm Malak Seku-Amen. I represent the California
12 state NAACP's 52 branches on behalf of the nation's
13 largest and oldest civil rights and social justice
14 organization.

15 We applaud the vision of the Governor, his
16 administration, especially the Secretary Adams and
17 Chairman Nichols for bringing together such an esteemed
18 group of experts for the benefit of California's
19 Greenhouse Gas Reduction Program.

20 We commend the EAAC and Dr. Larry Goulder's
21 leadership for their efforts to create an open public
22 process and their active and engaged participation on the
23 Committee.

24 When the NAACP looks into the climate change
25 microscope, the environment is not the only thing we see

1 in the lens. We see it as an issue of justice and human
2 rights. Although communities of color are far less
3 responsible for climate change and air pollution, they
4 carry the greatest burdens from these conditions. And
5 that's why it's important for the state and its policies
6 to carve out a more equitable channel in its work to
7 mitigate the impact of global warming.

8 And since Hurricane Katrina taught the whole
9 world a valuable lesson about climate change and quality
10 and racism, we are here to support EAAC's Recommendations
11 Number 10 and 11 to make sure that all of California's
12 communities have a fighting chance in the battle against
13 air pollution and global warming.

14 We suggest combining recommendations from the
15 EAAC's Number 10 and 11 recommendations and establish a
16 defined Community Benefits Fund.

17 We support reaching the goal of 100 percent
18 auctioning of allowances.

19 We don't have a particular position on a time
20 line. We do want to support economic recovery in the
21 state. Ultimately though for the program to be effective,
22 price discovery and transparency provided by 100 percent
23 auctioning we believe is necessary.

24 And finally, Chairman Nichols, you have
25 consistently stated that the Legislature should ultimately

1 make the final decisions about the allocations and so we
2 support this approach. However, we do urge that the Air
3 Resources Board provide specifics to make the EAAC's
4 recommendations operational.

5 Thank you very much.

6 CHAIRPERSON NICHOLS: Thank you very much for
7 participating.

8 Mr. Malloy.

9 Mr. MALLOY: Good afternoon, Chairman Nichols and
10 Board.

11 My name is Nile Malloy. I'm the Northern
12 California Program Director at Communities for a Better
13 Environment. We are a statewide environmental health and
14 justice organization. We do community organizing, science
15 and research, and also litigation.

16 We are greatly appreciative of EAAC's recognition
17 to the commitments to AB 32 and to low-income and
18 working-class communities and consumers in the
19 geographically defined areas.

20 I really want to speak about a few things. You
21 know, CBE, we represent various different statewide
22 members in Wilmington, southeast L.A., east Oakland,
23 Contra Costa and Richmond. These communities breathe some
24 of the dirtiest air in our nation. For example, in east
25 Oakland, there are over 200 pollution facilities and over

1 a thousand diesel trucks that goes into the community near
2 sensitive receptors or schools and homes.

3 I work in Richmond. We are dealing with the
4 largest greenhouse gas emitter in the state. And nearly
5 90 percent of the greenhouse gases in that city in
6 Richmond is being impacted by heavy industry.

7 Our members are very sick. We have a lot of
8 members that have died of cancer over the last ten to 15
9 years.

10 In my work in Wilmington, a majority of the
11 community hosts 13 major stationary pollutant sources
12 based on U.S. EPA toxic release inventory and responsible
13 for 718,000 pounds of pollution and generate over 18
14 million pounds of waste. And so these are very kind of
15 serious issues that are effecting our community.

16 And building off this, we recently reviewed the
17 staff report by Mark Jacobson who actually talks about the
18 issues of the local impacts showing CO2 has an adverse
19 impact to the local community. And the one thing he
20 states in his report is that as in real estate, location
21 matters. And so location matters in our work.

22 And in that context, we are supportive of
23 addressing the climate gaps that we see in the state and
24 support the Community Benefits Fund that has been
25 supported by EAAC. The Community Benefits Fund avoids the

1 shortcomings of contingency funds which place the burden
2 of proof on impacted communities. It also supports the
3 maximum auction allocations, which is a more sustainable
4 approach and that can lower all overall cost.

5 We also just really support that the community
6 benefit fund fulfills the intent of AB 32 and its
7 implementation process and that the funds would help
8 strengthen the neighborhoods that I just spoke about and
9 others throughout the state, support public transit, build
10 cleaner and healthier and resilient communities and
11 support the building of the green infrastructure.

12 So we strongly urge that the CARB supports the
13 EAAC recommendations, and we really want to see those
14 included in the next step of the process.

15 Thank you.

16 CHAIRPERSON NICHOLS: Thank you.

17 Rafael Aguilera, followed by James Brady and
18 Edwin Lombard.

19 MR. AGUILERA: Good afternoon.

20 Rafael Aguilera.

21 I want to start by saying on behalf of the Green
22 Line Institute that we support the Community Benefits Fund
23 as recommended by the EAAC, and we do so because of its
24 ability to fulfill a mandate of AB 32, but also because
25 it's the right thing to do for all the other reasons that

1 were previously stated.

2 On behalf of the Climate Protection Campaign, I'd
3 like to point your attention to the dividend section of
4 the report and fully support its recommendations there.
5 We talk about the politics of putting a price on carbon in
6 a slow economy and the sensitivity of consumers to the
7 impacts. And one thing that should be noted is that
8 nearly 100 percent or at least above 90 percent of the
9 costs that are borne by -- paid by industries for the
10 carbon price are passed onto consumers. Therefore, it is
11 a regressive sales tax. If we're going to go forward with
12 AB 32 implementation, we need to put a price on carbon.
13 If it's going to be regressive, we need to make sure that
14 consumers are made whole. Dividends do that. They flip
15 the policy from being a regressive policy to a progressive
16 policy.

17 And if you want to be politically sensitive in
18 this type of economy with foreclosures, joblessness,
19 unemployment and all that, we need to make sure that as
20 Warren Buffet says, consumer purchasing power is restored
21 somehow. The best thing you can do to save the economy
22 and the best thing you can do to implement AB 32 is to put
23 that cash back into people's hands so they'll have the
24 choice.

25 As Professor Dallas Burtraw mentions from the

1 EAAC, there's even potential to design dividends in a
2 manner that would tell people about cost effective
3 investment opportunities to reduce energy consumption.
4 There's potential to leverage future dividends and pool
5 those resources in communities and in projects to do
6 long-term investments, for example. There's great
7 potential for both of those things.

8 Dividends also would create local sales tax
9 revenues, boosting up local government coffers, and also
10 create state income tax revenues, because they have to be
11 reported as a source of income, so thereby helping out
12 with the state's budget problem without giving a direct
13 siphon off of the carbon budget.

14 So I just wanted to say that on behalf of the
15 Climate Protection Campaign, the EAAC ran a gold standard
16 of transparency in terms of its outreach. And it really
17 did a masterful work when it came to the report you have
18 today. So I hope you'll strongly consider, despite some
19 of the comments and concerns that were mentioned today.
20 We fully support.

21 CHAIRPERSON NICHOLS: Okay. James Brady, Edwin
22 Lombard, and Bonnie Holmes-Gen.

23 MR. BRADY: Good afternoon, Madam Chair, Board.

24 My name is James Brady. And although I haven't
25 had time to really review the report in detail,

1 specifically talking about page 38, 39, and 47, and the
2 most important information in here is that the energy
3 prices will go up, that they'll go up, and mostly for
4 low-income households. And that job loss will be so
5 significant that there will be a need for assistance
6 programs for displaced workers.

7 If the most optimistic assumption of these
8 impacts prove to be wrong, there's no reason to believe
9 they won't especially in the near and medium term, you
10 will have been responsible for a lot of harm to those
11 families.

12 Regulated utilities need not be given extra
13 concession to further discourage entrepreneurial
14 aspirations. The community benefit fund should be given
15 strong consideration and work through some of the
16 nonprofits that you have heard from here today. And I
17 think that would create the most serious economic
18 opportunity for those folks in the communities.

19 Thank you very much.

20 CHAIRPERSON NICHOLS: Thank you.

21 Mr. Lombard and Bonnie Holmes-Gen and Bill
22 Magavern. And that will be the end of the list.

23 MR. LOMBARD: Thank you, Madam Chair and Board
24 members. My name is Edwin Lombard. I'm here representing
25 minority small businesses and community-based

1 organizations throughout the state of California.

2 I'd like to commend CARB on their EAAC report and
3 the time and energy that you put in of producing such a
4 document.

5 But if the Committee honestly thinks that revenue
6 from an auction tax is somehow not a cost, they are
7 gravely mistaken. Someone would have to pay the tax so
8 the money that's going to be re-distributed to someone
9 else is going to be available.

10 The taxing entity will pass along the tax that
11 they incur to these groups that are going to benefit from
12 the distribution. They're going to see those costs in the
13 form of product increases and services, cost of increase
14 on services. In other words, what's going to happen is
15 you're going to put money in one pocket and it's going to
16 come out the other in a larger amount.

17 You submitted a list of GHG emitters recently
18 subject to the auction tax. That list included
19 universities, dairies, wineries, public utilities and
20 others agencies.

21 What's going to be the cost to go the college?
22 The cost of a carton of milk? The cost of social
23 beverages?

24 Seriously, we're not just talking about
25 refineries here and utility organizations or companies.

1 We're talking about social -- I shouldn't say that --
2 educational institutions and products that people of color
3 and minority groups use on a regular basis. I think it's
4 important as you go forward you keep these things in mind.
5 These are very important things that are not really being
6 discussed here.

7 There is no free lunch, which coincidentally is
8 not what your peer reviewers observed with respect to the
9 first economic analysis. Until the Board goes back to an
10 Econ 101 situation, and recognize you can't impose
11 billions of dollars in costs on an industry and not have
12 severe harm to the economy, then your plan has no
13 credibility.

14 Thank you very much.

15 CHAIRPERSON NICHOLS: Bonnie Holmes-Gen and Bill
16 Magavern.

17 MS. HOLMES-GEN: Good afternoon, Chairman Nichols
18 and members of the Board.

19 Bonnie Holmes-Gen with the American Lung
20 Association in California. And the American Lung
21 Association has been participating in the EAAC process and
22 in CARB's process to develop a Cap and Trade Program to
23 work toward developing a strong program that will achieve
24 our AB 32 greenhouse gas reduction goals and at the same
25 time maximize air quality benefits, public health benefits

1 and achieve equity goals.

2 And we have greatly appreciated the hard work of
3 the EAAC and Chairman Goulder in producing its report to
4 the ARB. We agree this report is a strong starting point,
5 and we appreciate the open public process in the EAAC
6 under Chairman Goulder and their willingness to
7 incorporate public comments.

8 And we also appreciate Chairman Nichols' comments
9 and we need to start slowing and cautiously with the Cap
10 and Trade Program. But we believe there are key elements
11 that need to be incorporated into the program to ensure
12 its success, and we think the EAAC report has hit on many
13 of these.

14 We appreciate and support the strong EAAC
15 recommendation for 100 percent auction. From a public
16 health perspective, we believe this is the best way to
17 proceed. And we hope that the Board can begin the 100
18 percent as soon as possible, as soon as feasible in terms
19 of ramping up to that level.

20 We believe that the 100 percent auction sends
21 right signals and ensures that a price is paid for
22 pollution, that the public has the right price signals.

23 And we also urge the Board to continue to work
24 closely with the public health working group in developing
25 specific recommendations on the Cap and Trade Program, on

1 the auction. And we continue to participate in that
2 process. There needs to be some connection of course
3 between the regulatory development and public health
4 working group findings.

5 We support the EAAC recommendations to invest
6 allocation revenue in a range of adaptation and mitigation
7 programs for disadvantaged communities, for public health
8 and for land use planning and public transit. We think
9 these are key categories.

10 And we do support the community's benefit fund.
11 I think it's tremendous. There is such a wide showing,
12 such a good showing of community groups talking about the
13 need for investment in communities, and we hope the Board
14 makes that a key consideration in looking at how to invest
15 this huge pot of new money from cap and trade.

16 And we also support the specific allocation of
17 funds to public health preparedness. And we think there
18 is a need for a public health fund to work with state and
19 local public health agencies to build and expand
20 California's public health infrastructure to respond to
21 the very, the very serious health impacts that are caused
22 by climate changes from the pollution the heat waves, the
23 disease outbreaks, and other public health concerns. And
24 those public health needs include assisting with emergency
25 preparedness and monitoring climate change health impacts,

1 working with vulnerable communities, and other elements of
2 public health program.

3 And just would comment that the American Lung
4 Association and 24 other public health organizations sent
5 a letter to your Board in January supporting the need for
6 this fund.

7 And, finally, we comment, the 75/25 percent split
8 is something we're looking at closely, but think there is
9 more money needed for this investment end of that.

10 Thank you very much for the time.

11 CHAIRPERSON NICHOLS: Thank you.

12 Mr. Magavern. And we have two more cards that
13 have come in, so we aren't really at the end.

14 MR. MAGAVERN: Bill Magavern with Sierra Club
15 California.

16 We also want to thank the EAAC for, first of all,
17 having a very open and inconclusive process. We
18 participated and made comments in person and submitted
19 them in writing, but also for the high quality of the work
20 that was done. We think this is a report that policy
21 makers should give great respect to.

22 We support a policy of 100 percent auctioning for
23 a variety of reasons, which the EAAC really spelled out
24 very well. They made the case this is the most efficient
25 way to go about it. It's the most fair.

1 I was particularly struck by Chairman Goulder's
2 comment that auctioning would not result in higher cost to
3 consumers than free allocation. I think it was very
4 important to note and that, in effect, if you give away
5 the allowances, what you get is the big polluters
6 pocketing big windfall profits, and the consumers paying
7 higher prices. And I believe this is what happened in
8 Europe in the first phase of their Cap and Trade Program.

9 We have supported for many years the principle
10 that polluters should pay for the cost of mitigating the
11 damage that they do. And by putting that in place right
12 from the start, then you provide the best incentive for
13 bringing down emissions right away. And we really don't
14 have time to lose.

15 We do support investing the revenues in a variety
16 of programs related to AB 32. Many others have spoken
17 about these, but energy efficiency, renewable energy,
18 public transfer, land use planning, resource and public
19 health, adaptation, training for green jobs, and also
20 holding low-income consumers harmless would all be good
21 uses of that money.

22 I also want to endorse the comments made by the
23 civil rights and environmental justice groups. And I
24 think that AB 32 requires and it is the right thing to do
25 to make sure that the most disadvantaged communities do

1 not bear a disproportionate burden of pollution and
2 climate change.

3 Thank you.

4 CHAIRPERSON NICHOLS: Can you prepare an ESA
5 Version 1 was widely regarded as having allocated way too
6 many allowances and was not considered effective in terms
7 of bringing down emissions levels. And it did lead to
8 what we're seeing as windfall of profits by many people.
9 That has led the E.U. to start working on a second
10 versions of ESA, which I understand is now being quite
11 widely praised as having avoided those defects. And we
12 are looking closely at what they're doing. They did us
13 all a big favor, as did New York, with their RGGI program
14 by jumping in and trying different approaches.

15 MR. MAGAVERN: I think I said in the first phase
16 of the program. If I omitted that -- if I omitted that,
17 that was not my mistake. That was my intention.

18 CHAIRPERSON NICHOLS: Thank you.

19 Kristen Eberhard and Mike Sandler.

20 MS. EBERHARD: Good afternoon.

21 Kristin Eberhard with NRDC. I apologize on the
22 fake-out of almost ending after the public comment. I
23 filled out the wrong card. But I am in some sense saving
24 you, because I'm speaking on behalf of 12 groups today in
25 addition to -- in addition to NRDC, Resources Solution,

1 Environmental California, Energy Independence Now,
2 American Lung Association of California, Breathe
3 California, Sierra Club of California, Center for Energy
4 Efficiency and Renewable Technology, Union of Concerned
5 Scientists, Coalition for Clean Air, Climate Protection
6 Campaign, and Public Health Law and Policy.

7 CHAIRPERSON NICHOLS: Your time is up.

8 (Laughter)

9 MS. EBERHARD: All of us agreed on some things,
10 and we agreed with the Committee on some things that I'd
11 like to highlight for you.

12 The first I think you heard loud and clear from
13 Professor Goulder, which is auction. Auctions are the
14 simplest, fairest, most transparent way to allocate the
15 allowances. And they don't result in any greater cost to
16 consumers.

17 The second thing you heard from Professor Goulder
18 is that what we really are trying to do here is
19 transition, transition to a clean carbon economy, a clean
20 energy economy, and not just compensate polluters for
21 their past, present, or future pollution.

22 So towards that end, I just want to highlight for
23 you that the report does recommend that a significant
24 share of the allowance value be invested in that
25 transition to a clean energy economy.

1 And our groups agree on a couple of criteria for
2 thinking about when you're making those investments in
3 energy efficiency/renewable energy, in the technology and
4 infrastructure that we need to make the transition,
5 there's a couple of other things that we can be thinking
6 about, which is those investments will also help us
7 maximize our air pollution benefits. Other environmental
8 benefits will help us compensate disadvantaged communities
9 through a Community Benefits Fund that you've heard about
10 today. And that we can also use that to invest in
11 adaptation.

12 And I'd like to call out in particular, as
13 Professor Goulder said, everybody didn't agree on exactly
14 what to invest or exactly how much to invest in. But I
15 you want to call out for you one category of investment
16 which is public transit, which is a great way of helping
17 disadvantaged communities, improving air quality, and
18 maximizing environmental benefits, while at the same time
19 reducing greenhouse gas emissions.

20 There's other things we think are important, but
21 that's a good example of accomplishing all of those things
22 at once. Thank you very much.

23 CHAIRPERSON NICHOLS: Thank you.

24 Mr. Sandler, you have the last word. That is,
25 from the public.

1 MR. SANDLER: No one can rebut what I say.

2 My name is Mike Sandler. I'm here with the
3 Climate Protection Campaign. And I am also saving you
4 time, because I'm speaking on behalf of 36 million
5 Californians. Hey. Sounds like a bold statement. What
6 I'm trying to do is give you all money. That's another
7 reason to listen to my quick three minutes here.

8 It was a very courageous report, and our group
9 really endorses the EAAC and appreciates all the work they
10 put into it. Some of the best ideas are in there. And if
11 you wonder why they didn't say something else, there is a
12 good explanation why in there. They resisted some of the
13 bad ideas that have been put forth in the past.

14 And so the key one I think is 100 percent
15 auction. Without that, it's hard to do a lot else with
16 your potential proceeds and revenues.

17 I would encourage you all not to mess around for
18 three or five years getting towards 100 percent auction.
19 That's what Europe has been doing for many years.
20 Eventually, we'll get there. Eventually, in years past
21 voters lose interest and you see a backlash. And
22 eventually -- and in California, we're already seeing a
23 backlash against AB 32. So it's best to start with the
24 right ideas and the right design.

25 Secondly, returning a majority of allowance

1 value -- in this case, 75 percent to households -- we're
2 not talking two utilities on behalf of consumers, but
3 directly to households. Our organization supports a cap
4 and dividend approach rather than tax cuts. It addresses
5 economic uncertainty. It will help you explain how
6 consumers will pay the cost under AB 32. It's invisible
7 to voters and provides low income assistance.

8 And we hope that you would include 100 percent
9 auction and 75 percent allowance value back to households
10 in the PDR that's coming up.

11 I should mention also that that 75/25 split is
12 also found in a bill that's in front of the US Senate
13 right now, the Cantwell-Collins CLEAR Act. So I hope
14 you're aware that there is a federal counterpart to that
15 design.

16 So I hope that you will be able to communicate
17 the EAAC findings to others in Sacramento. So if you were
18 to walk into an important room of decision makers and said
19 cap and dividend, they'd know what you're talking about.
20 And this would really advance the discussion.

21 And in fact, I'd like to offer a prop I have
22 started using. This is a dividend. I don't think that
23 will pick up there on the video screen. This is actually
24 the Governor's dividend check, and then I brought one here
25 for every voter in the state.

1 And next time I'll show up with my four-foot
2 dividend I've been carrying around and I look like a talk
3 show host.

4 So I guess to wrap up, AB 32 needs an action
5 hero, not baby steps.

6 And thank you to the EAAC for providing a road
7 map for implementation of cap and trade. Thanks.

8 CHAIRPERSON NICHOLS: Thanks, Mr. Sandler.

9 There is a few things that everybody agrees on.
10 One is that there is value contained there in the carbon
11 somewhere. And the issue is how do you capture and
12 recognize it.

13 The other is I think there needs to be a
14 transition. I hope that you understand that California is
15 not taking baby steps when it comes to controlling carbon.
16 We already have far and away the most advanced standards
17 for vehicles and fuels in the world. We have SB 375,
18 which is beyond anything that any other state has
19 attempted to do at the state level. And we're moving
20 forward to a mandatory 33 percent renewable energy
21 standard. So none of these are in the category of baby
22 steps. And if that comment of mine gets taken out of
23 context and applied to our program, I will be sorry and
24 I'll hear about it.

25 But I did attempt to say, perhaps not as

1 eloquently as I might have, is that we're now embarking on
2 a completely different type of program, something unlike
3 anything the ARB or any other agency of state government
4 has ever attempted to do before. We are fortunate that we
5 do have some models to look at of other cap and trade
6 programs. And we are now guided by some very thoughtful
7 and good advice that we've gotten by the group that we
8 appointed, Secretary Adams and myself, and we take that
9 advice very seriously.

10 One of the things that clearly has emerged from
11 this conversation, and I think we will need to bear it in
12 mind, is that both the language of AB 32 and the work that
13 we've done over the last couple of years in implementing
14 it have led to a great deal of interest -- I'd say maybe
15 even unprecedented interest on the part of a wide array of
16 community-based organizations in the possibility that some
17 of the value that is created as a result of this program
18 could be allocated squarely towards issues that those
19 communities face. And I think there is not just sympathy
20 for that view. I think there's actually the recognition
21 on the part of many people, including many in the
22 regulated community, that we do need to find a way to
23 formally address that need in whatever the decision is
24 coming forward with this program.

25 But beyond that, there is a lot of work to be

1 done. And I think there are some trade-offs as this
2 discussion has made clear between the question of whether
3 businesses -- in particular, those that are highly
4 regulated like electric utilities -- can best implement
5 programs on behalf of their customers or whether you just
6 give the money back to the customers and let them decide
7 for themselves. And those are kind of ideological
8 questions but also practical questions.

9 NRDC, in particular, I think is kind of in an
10 interesting position on this one, because they are at the
11 forefront of organizations that have shown that through
12 working through the regulatory system and with the
13 utilities you can implement a wide array of very
14 cost-effective programs that benefit customers and the
15 environment and that don't cost the utilities on their
16 bottom line. And both they and the utilities agree there
17 is a lot more benefit that can be captured as a result of
18 expanding on those programs. And so they're multiple
19 possible design elements.

20 I can't remember -- I guess it was DeeDe D'Adamo
21 who said that she wanted to see how the various elements
22 worked together, because it is a bit like a jigsaw puzzle
23 with a lot of different pieces that have to be fitted
24 together to come up with a program that can actually work.

25 Staff obviously has a lot of work to do. But I

1 think you have some good guidance here.

2 Do you want to have any final words on this
3 before we move forward?

4 Mr. Goldstene?

5 EXECUTIVE OFFICER GOLDSTENE: No.

6 CHAIRPERSON NICHOLS: In that case, we have one
7 other important report to deal with this afternoon. Some
8 of the same people are involved in the next presentation.
9 But I think we need about a five-minute break, which I
10 know will really be a ten minute break, but could we
11 please keep it to a ten-minute break?

12 (Thereupon a recess was taken.)

13 CHAIRPERSON NICHOLS: Back again for another
14 lesson in economics.

15 The next agenda item is a staff presentation on
16 the updated economic analysis of the AB 32 Scoping Plan.

17 Back in 2008 -- seems so long ago -- when we
18 considered the Scoping Plan, we directed staff to come
19 back with an updated analysis to address some of the
20 concerns that had been raised about the first analysis
21 that the staff had done.

22 This week, staff released the updated analysis,
23 which shows how the California economy will respond to the
24 range of measures included in the AB 32 Scoping Plan to
25 reduce our current emissions of greenhouse gases by about

1 15 percent from their current levels. This analysis
2 provides a useful broad look at our climate change program
3 which compliments the specific analysis staff must conduct
4 for each regulation as it comes before the Board,
5 including the measure that we were just talking about a
6 few minutes ago, the cap and trade proposal. This new
7 analysis takes into account updated economic modeling
8 assumptions, uses new modeling tools, and incorporated the
9 economic downturn into the business-as-usual assumption.

10 We also directed staff to work with experts as
11 they develop this analysis. And again as you've already
12 heard, last May, Cal/EPA Secretary Linda Adams and I
13 appointed the Blue Ribbon Committee of economic, business,
14 and policy experts, known as EAAC, to advise us on the
15 next round of analysis and the development of the cap and
16 trade regulation. That Committee has been advising us
17 since then, and we have benefited greatly as a result of
18 the interaction. So what you're seeing is not just a
19 product that the staff did and then ran past a Committee
20 for review, but rather something that was done in a much
21 more interactive fashion over a period of many months.

22 The EAAC Committee has also reviewed the staff
23 document, however, as an independent body, and that review
24 is submitted as an appendix to the staff report. And
25 Professor Goulder will be summarizing it after the staff

1 does the presentation.

2 Staff also collaborated with Charles River
3 Associates, a consulting firm that was conducting
4 simultaneously an industry-sponsored economic analysis of
5 AB 32 implementation to provide them with ARB's inputs and
6 assumptions so that we could see results from the
7 different modeling approaches that used common input
8 assumptions. So you will also hear a brief summary from
9 Charles River on their results as well.

10 And I want to emphasize how useful and important
11 I think this effort has been in making sure that there has
12 been cross communication and some degree of comparability
13 of apples and oranges or apples to apples when it comes to
14 looking at the results of the various models. I'm not
15 going to try to state the conclusion, but just say I think
16 it was a very helpful move on the part of the sponsors of
17 Charles River to make their consultants available for
18 collaboration with us.

19 I want to note this is not an action item, but it
20 is an early opportunity for the Board to hear the results
21 of the analysis from staff and EAAC commentary on the
22 report.

23 I also want to acknowledge that for such an
24 important and complicated topic, it is unfortunate that
25 very little time has been available to those outside the

1 group that worked on these reports to review them or their
2 findings. And, therefore, I have asked the staff to plan
3 an event to which we can invite Board members and that
4 will allow a much more complete discussion about the staff
5 report and other modeling efforts to analyze the economic
6 impacts of reducing greenhouse gas emissions.

7 So after the presentation and Board discussion, I
8 want to continue this item to the April Board hearing for
9 the Board to hear testimony after all the members of the
10 Board as well as stakeholders have had an ample time to
11 consider the analysis.

12 So for that reason, I ask members of the public
13 to reframe from public testimony to the maximum extent
14 possible. I know people may not be able to resist saying
15 something about the process, but we would like to reserve
16 your time and ours until we've all had a chance to look
17 more closely at the analysis and then have a really
18 substantive conversation in connection with the April
19 Board meeting.

20 And with that, I will turn it over to Mr.
21 Goldstene to introduce this item.

22 EXECUTIVE OFFICER GOLDSTENE: Thank you, Chairman
23 Nichols.

24 The Air Resources Board has a long history of
25 thoroughly considering the economic impacts of its clean

1 air policies. These types of economic analysis are meant
2 to help us make policy choices that are both cost
3 effective and successful at reaching our environmental
4 goals.

5 The analysis that staff is about to present looks
6 at how the California economy will respond to the range of
7 measures included in the AB 32 Scoping Plan to reduce our
8 current emissions of greenhouse gases by about 15 percent
9 from current levels. The analysis confirms that
10 California can reduce our greenhouse gas emissions by
11 transitioning to a cleaner energy supply while maintaining
12 our economic growth, reducing emissions, reducing our
13 dependence on oil, and improving our energy security. Our
14 program will provide a gradual shift to a more
15 renewable-based clean energy economy.

16 The findings of the analysis show the growth in
17 the economy, jobs, and income continue as we implement
18 these measures to reduce greenhouse gas pollution and at
19 the same time achieve significant fuel savings.

20 In terms of process, as Chairman Nichols just
21 indicated, staff's been working closely with the Economic
22 Impact Subcommittee of the Economic and Allocation
23 Advisory Committee in drafting the report you see before
24 you today. We asked this Blue Ribbon Committee of
25 economic, business, and policy experts to advise us on

1 this updated analysis as well as on the development of the
2 cap and trade regulation itself. This Committee wrote a
3 companion report that provides their expert review of the
4 work and findings of ARB staff.

5 Professor Larry Goulder from Stanford, who you
6 just heard from in the previous item, will present the
7 Advisory Committee's comments as part of this
8 presentation.

9 In addition, the Board directed staff to look for
10 opportunities for collaborative modeling efforts as we
11 updated our analysis. Staff collaborated with Charles
12 River Associates to ensure to the extent possible that we
13 could use different modeling tools with a common set of
14 inputs and assumptions.

15 Paul Bernstein from CRA will make a brief
16 presentation of CRA's results following the reports. Dr.
17 David Kennedy, ARB's principle staff member working on the
18 economic modeling and subsequent analysis, will present
19 this update.

20 Before he starts, I'd like to thank him and all
21 the staff who have been working tireless hours to get this
22 done.

23 With that, I'll ask David to begin the staff
24 presentation. David.

25 (Thereupon an overhead presentation was

1 presented as follows.)

2 Thank you, Mr. Goldstene.

3 MR. KENNEDY: Good afternoon, Chairman Nichols
4 and members of the Board.

5 I'm here today to discuss our updated economic
6 analysis of the AB 32 Scoping Plan.

7 --o0o--

8 MR. KENNEDY: When the Board adopted the Scoping
9 Plan in December of 2008, they directed ARB to perform an
10 update of the analysis of the potential economic effects
11 of implementing the plan. The update would include:
12 Estimates of overall costs, savings, and cost
13 effectiveness of the reductions, not only for greenhouse
14 gases but for co-pollutants; estimates of the timing of
15 capital investments and the resulting savings; sensitivity
16 of the results to changes in assumed conditions; and the
17 impacts on small business.

18 It is important to emphasize this is an analysis
19 of the entire Scoping Plan. This analysis is not meant to
20 be a substitute for any measure-specific analysis.
21 However, this analysis will provide useful information as
22 we implement specific measures and conduct
23 measure-specific analysis such as the cap and trade
24 regulation.

25 --o0o--

1 Economic and Allocation Advisory Committee was tasked with
2 advising ARB on economic analysis. In completing this
3 analysis, staff has worked closely with the EAAC to refine
4 methodologies and to discuss results.

5 Staff will continue to consult with the members
6 of the EAAC on issues of program design as part of the cap
7 and trade rule development.

8 --o0o--

9 MR. KENNEDY: The original Scoping Plan analysis
10 estimated the effects of implementing all Scoping Plan
11 measures. This analysis takes a different approach by
12 focusing on several key complementary measures. These
13 measures include: Increased energy efficiency programs
14 and standards; a 33 percent renewable energy standard;
15 increased use of combined heat and power; regional VMT
16 reduction targets; California's clean car standard; goods
17 movements measures; and low-carbon fuel standard; and Cap
18 and Trade Program.

19 Some of these measures are implemented in a
20 modeling in a detailed manner, which some are implemented
21 in less detail. Specifically, there are some important
22 issues that could effect the cost of the Cap and Trade
23 Program that warrant further examination.

24 --o0o--

25 MR. KENNEDY: As previously mentioned, staff

1 investment in devices of greater efficiency. The greater
2 efficiency causes less energy to be demanded, which
3 reduces the price of electricity since less needs to be
4 provided.

5 --o0o--

6 MR. KENNEDY: E-DRAM is a computable general
7 equilibrium model of California economy originally
8 developed by Dr. Peter Berck of U.C. Berkeley for use by
9 the California Department of Finance.

10 CGE models, as they're referred to, are standard
11 tools that are widely used to analyze the impacts of
12 policies whose effects are transmitted across multiple
13 markets. CGE models have been the primary tools used in
14 the analysis of federal climate policy. CGE models
15 provide information about a policy's potential effect on
16 state product, employment, and income.

17 --o0o--

18 MR. KENNEDY: All CGE models have the same basic
19 relationships which are shown in this figure called a
20 circular flow diagram. The relationships expressed in
21 this picture show how goods and services, labor and
22 capital, and money flow through a regional economy.

23 The solid lines are the flows of real items, such
24 as goods, services, labor, and capital. The inner flows,
25 shown as dashed lines, are the flows of money.

1 -0.6 percent.

2 --o0o--

3 MR. KENNEDY: Finally, this chart displays the
4 results for employment across the five cases. The change
5 in employment ranges from 0.1 percent to -1.7 percent.

6 --o0o--

7 MR. KENNEDY: Some overall conclusions from this
8 analysis are that: California's emission target could be
9 achieved while still maintaining economic growth; less
10 effective implementation of some complementary measures
11 could increase costs; and that offsets reduce costs.

12 --o0o--

13 MR. KENNEDY: While this analysis must be
14 re-evaluated based on its own merits, we felt it was
15 useful to compare these results to other economic analyses
16 of AB 32 and federal climate change proposals. What we
17 see is that modeling approaches vary, but reach similar
18 conclusions. Impacts on gross state product or gross
19 domestic product are small relative to projected growth
20 between now and 2020.

21 --o0o--

22 MR. KENNEDY: This chart presents the change in
23 gross state product or gross domestic product from the
24 other analyses. The red bar on the left and the
25 100 percent line represent business as usual.

1 small business and will help identify economic
2 opportunities for them.

3 --o0o--

4 MR. KENNEDY: Overall, the analysis demonstrates
5 that the Scoping Plan strategy for reducing greenhouse
6 gases represents a cost effective approach to implementing
7 AB 32. The design and implementation of individual
8 Scoping Plan measures will be informed by this economic
9 analysis.

10 --o0o--

11 MR. KENNEDY: Moving forward, we will provide a
12 forum for discussion of this analysis in April. We will
13 continue working with the EAAC. We will continue to
14 performance analyses to support individual AB 32 measures.

15 Thank you very much.

16 CHAIRPERSON NICHOLS: Thank you, Mr. Kennedy.

17 EXECUTIVE OFFICER GOLDSTENE: Now Mr. Bernstein
18 from CRA, unless there are any questions.

19 (Thereupon an overhead presentation was
20 presented as follows.)

21 MR. BERNSTEIN: First of all, thank you very much
22 for the opportunity to present here. But also I'd really
23 very much thank the ARB and the Cal/EPA for approaching
24 CRA and asking us to participate in this analysis. It's
25 been a wonderful collaboration with the ARB and the EPA.

1 We find the cost per household ranges from 200 to
2 \$500 per capita or about half a percent to 1.1 percent of
3 income per capital.

4 I think what's an interesting point here is that
5 when CRA and the ARB under very similar assumptions and
6 looking at what David just discussed was Case 5, which has
7 the limited set of complementary measures, ARB and CRA
8 find fairly similar cost estimates -- per capita cost
9 estimates.

10 Another similarity between ARB and CRA is that we
11 both find there are tremendous benefits from offsets. So
12 even if we have four percent offsets, we find that permit
13 prices decline by 33 percent and the ARB actually finds
14 that they decline by 80 percent. And I'll discuss this
15 more in one of the following slides.

16 However, holding to the idea of a diverse set of
17 models, we have differences of opinion or we see
18 differences with -- our results come up with differences
19 from what the ARB sees. And in particular, we find that
20 the command and control measures, or in other words, the
21 complementary measures actually including them, leads to
22 greater costs. Whereas, the ARB finds that these measures
23 reduce cost. So CRA finds as we layer on the
24 complementary measures and reduce the flexibility of the
25 program or reduce the flexibility of the Cap and Trade

1 Program, this leads to greater costs.

2 Last, in all models, they're going to be
3 sensitive to the assumptions about things such as economic
4 forecasts and technology costs. And, therefore, again
5 this emphasizes that flexibility in designing any policy
6 is quite important.

7 One of the issues where we find a great range of
8 costs is in what you assume about the availability and the
9 cost to procure low carbon fuels. So if we use what we
10 feel are more realistic assumptions for the ability to get
11 these low carbon fuels and what they will actually cost,
12 we find that including the LCFS as part of AB 32 raises
13 costs by somewhere in the order of 40 percent.

14 Second, in terms of sensitivities, if one runs
15 scenarios, your main reference scenario, scenario one, if
16 you use the current assumption, the IPR 2009 as your
17 economic forecast and you compare that to if you were to
18 use the IPR 2007 forecast, you'll find that using the IPR
19 2009 forecast cuts costs in half. So put another way
20 though, if the economy were to come to recover, which we
21 all hope it will, and return to the growth path that was
22 forecasted in the IPR 2007, we would see our cost doubling
23 from what we have here.

24 --o0o--

25 MR. KENNEDY: So what we're comparing here is the

1 effect of complementary measures. So what I have on the
2 vertical axis is the permit price. On the horizontal
3 axis, I have overall societal cost from 2010 to 2020. So
4 you consider that overall program costs in discounted
5 present value. And I'm comparing four different scenarios
6 here. The 1A is essentially Scenario 1 that David just
7 talked about, and that's a case in which complementary
8 measures are included, and I'm using the ARB cost
9 assumptions.

10 The Cap 1A, the complementary measures are
11 excluded, and I'm also using the ARB cost assumptions.
12 And then 1B in Cap 1B are analogous to 1A and Cap 1A,
13 except now I'm using CRA cost assumptions. The CRA cost
14 assumptions have the higher cost for the alternative
15 transportation fuels.

16 So whether I use the ARB assumptions or I use CRA
17 assumptions, you can see that if you look on the bottom
18 part there with the complementary measures that if I
19 remove the complementary measures and move up virtually
20 and to left, I lower the cost dramatically.

21 So following along on the horizontal axis there,
22 if I take the ARB's Case 1A, I see something like societal
23 cost of somewhere around \$65 billion. If we remove the
24 complementary measures, that cost drops to somewhere
25 around \$37 billion. So a dramatic decrease in costs if

1 Okay. So if we took Scenario 1 that we, both ARB and CRA,
2 have analyzed, if we were to put where that blue diamond
3 is there, we don't know where that blue diamond is. There
4 are a lot of uncertainties out there.

5 But what I think we can state fairly conclusively
6 though if we have a blue diamond or a diamond up on there
7 and we were to -- and that represents Program A and we add
8 offsets to Program A, we're going to move downward and to
9 the left. And so we will reduce permit prices, and we
10 will lower societal cost.

11 And doing this obviously has great benefits, just
12 reducing the cost. But also it helps in doing that it
13 lessens the incentives for investment to leave California.

14 Next slide.

15 --o0o--

16 MR. KENNEDY: Here I'd like to show what we're
17 finding when we look at a different set of cost
18 assumptions for the alternative transportation fuels.

19 So the 1A and the Cap 1A are the policies I
20 talked about a couple slides ago. In those, we're using
21 the ARB assumption. The Cap 1A is a pure cap and trade
22 policy. The 1A is essentially Scenario 1.

23 1B is analogous to Scenario 1A, except we're
24 using the CRA assumptions. And Cap 1B is analogous to Cap
25 1A, except now we're using the CRA assumptions.

1 MR. KENNEDY: So finally let me just summarize
2 some of the points I've tried to make here.

3 Increase reliance on a market-based approach,
4 such as a cap and trade or tax, can achieve the emissions
5 target at what we find to be substantially lower cost than
6 the Scoping Plan's approach that relies much more heavily
7 on the complementary measures. Part of the issue here is
8 when you have the market-based approach, you have much
9 greater flexibility. And so this is pointing out the
10 policy design choices are quite important.

11 Next, the inclusion of offsets greatly reduces
12 permit prices and overall program costs. And if the
13 offsets are designed correctly, it maintains the overall
14 emission reductions.

15 The four percent offsets, we find that it lowers
16 the program costs by 15 percent and it lowers permit
17 prices by 33 percent. If we look at a case where no
18 complementary measures are in place and we start with the
19 four percent offsets and go to something like the
20 availability under a Waxman-Markey program, we find that
21 actually we can lower the program costs by 45 percent and
22 the permit price is also dropping by 33 percent.

23 So external factors can also contribute to higher
24 than expected costs, highlighting the need for compliance
25 flexibility and cost containment mechanisms. These higher

1 than expected emissions and technology costs would
2 increase program costs substantially.

3 Last, I'd just like to say as the Governor
4 pointed out and has been mentioned a number of times here
5 that I think it's important to keep an eye on the ball in
6 terms of the national program and again to have
7 flexibility in your program to link up with a national
8 program, as we find under the national program the impacts
9 on California are substantially less. In fact, 50 percent
10 less in the case we ran.

11 Thank you very much for your time.

12 CHAIRPERSON NICHOLS: Thank you.

13 Does the staff want to respond? Or -- I'm sorry.
14 Next is Professor Goulder. Out of order here.

15 (Thereupon an overhead presentation was
16 presented as follows.)

17 PROFESSOR GOULDER: Thank you. I'd like to thank
18 being both Cal/EPA and the Air Resources Board for the
19 opportunity for the EAAC to contribute to the economic
20 impact work. I think they showed a great deal of wisdom
21 not only in asking for outside experts, but also I think
22 in inviting Charles River Associates to introduce their
23 own modeling work.

24 My view is it's been extremely informative to see
25 the comparison and results from the Charles River model

1 from the ARB's modeling work. And it's really starkly
2 indicated what the differences are due to, and this is
3 very useful because it really tells us where we can focus
4 our attention in order to get more information and
5 hopefully reduce the uncertainties.

6 Also I just want to thank at the ARB Steve Cliff
7 and Kevin Kennedy and Dave Kennedy. It's been a pleasure
8 working with them and we'll look forward to continuing to
9 work with them.

10 I should mention it's really a subcommittee of
11 the EAAC, subcommittee of seven members that have been
12 involved in the economic impacts work. We call ourselves
13 the Economic Impacts Subcommittee. Jim Bushnell, who's at
14 Iowa State University, is the Chair of Energy and
15 Economics, Chaired that Subcommittee.

16 And then in addition, Steve Levy here on my
17 right, who's Director and Senior Economist for the Center
18 for Continuing Study of California Economy is on the
19 Committee. Chris Knittel, who's a professor at U.C.
20 Davis. Nancy Ryan, who, as many of you know, is the
21 Executive Director for Policy and External Relations at
22 California Public Utilities Commission. Nancy Sidhu,
23 Chief Economist at the Kaiser Center for Economic Research
24 at the L.A. County Economic Development corporation. And
25 finally, the seventh member is Jim Sweeney, my colleague

1 at Stanford, who's a Professor in the Department of
2 Management Science and Engineering and also Director of
3 the Precourt Energy Efficiency Center at Stanford.

4 Next slide.

5 --o0o--

6 PROFESSOR GOULDER: So our subcommittee's tasks
7 were the two-fold. As indicated, one is to offer ongoing
8 input to the ARB staff as it prepared its economic
9 analysis or updated analysis.

10 And secondly, to offer commentary on the
11 completed product, the report that's just been issued.
12 And our commentary appears as an appendix to that report.

13 Next.

14 --o0o--

15 PROFESSOR GOULDER: I'll give the bottom line
16 first and then provide a few details in the next ten
17 minutes or so.

18 Our bottom line assessment is that although it's
19 not a perfect study -- no study is -- it's a solid study.
20 It's carefully done. Close attention to the data.
21 Reasonable modeling assumptions. And although different
22 elements of the work might buy us in one direction or the
23 others in terms of cost, it's not clear how all the biases
24 add up. Overall bias is not clear. And I think in
25 general it provides useful information as a result.

1 We were impressed by the very close attention to details
2 of energy supply and demand. In fact, we can't think of
3 any other model of the California economy that has a
4 closer attention to energy technologies than that in the
5 ARB.

6 In addition, as was already mentioned by both
7 Dave Kennedy and Paul Bernstein, there is a lot of work to
8 produce a useful reference case or business-as-usual case.
9 As Dave Kennedy mentioned, they try to incorporate some
10 changes that are not part of AB 32 but should be
11 considered part of the baseline.

12 I might add that the earlier economic analysis
13 from two years ago was strongly criticized, because it was
14 argued their baseline assumptions were problematic, and in
15 particular, that a lot of elements that should have been
16 in the baseline were, in fact, considered some of the
17 positive impacts of AB 32. I think this has been
18 corrected. So, for example, in the baseline now, there's
19 the Pavley 1 rules, the 20 percent RPS for utilities, and
20 also takes account of the federal renewable fuel standard.

21 So third point is there is some sensitivity
22 analysis to isolate the contributions of various so-called
23 components of AB 32, including the complementary measures
24 such as the Pavley II rule, the 33 percent RPS, and energy
25 efficiency standards.

1 And fourth, there is detailed attention to these
2 complementary policies as part of those and their
3 relationship to cap and trade.

4 On the other side in terms of weaknesses, the
5 model does not account for either the Energy 2020 or the
6 E-DRAM model. It accounts for policy-induced
7 technological change. Nor is there an attention to
8 emissions leakage. So the emissions reductions that are
9 reported are only those in California. There is no
10 attention to the offsetting potential increase in
11 emissions out of state that are generated by California
12 policy. So in both, if we were to account for
13 technological change, the cost might lower than predicted.

14 On the other hand, if we account for leakage,
15 things don't look as good as predicted. There's also in
16 our view -- and we detailed this a bit in our appendix --
17 there might be some over-optimism in terms of the cost of
18 complementary policies. I'm not claiming all the
19 assumptions in the central Charles River approach are
20 exactly on target. But at least some of the assumptions
21 about cost of the complementary policy seem optimistic in
22 the ARB's analysis. In particular, the vehicle miles
23 traveled reductions that are part of the package, those
24 apparently are brought in at zero cost and there's really
25 not any clear justification for that. In prior economic

1 earlier, because I'm measuring cost per household as the
2 cost in terms of reduced gross state product per
3 household. You'd have to come up with numbers that are
4 about one-third as big if you did it in terms of personal
5 income, the percentage changes.

6 But there you see a range of \$105 to \$738.
7 Notice -- and this again relates to the point that Mary
8 Nichols raised just a moment ago. This is the change
9 relative to what would otherwise be the case in the year
10 2020. Rough calculation is that personal income from
11 today to 2020 per capita should rise by about \$4700. So
12 the per capita basis on average we're \$4700. So what this
13 means is that AB 32 might, instead of our income going up
14 by \$4700 on a per capita basis, only go up by somewhere
15 between 4,000 and \$4600. You can draw your own
16 conclusions whether that's a lot or a little. But I think
17 it's important to keep that in mind. It's really a change
18 in the rate of growth that's relevant here.

19 CRA, on the other hand, is getting higher
20 allowance prices largely because of the differences, as
21 Paul mentioned, in complementary policies. It has the
22 same scenario emissions reduction. And impacts on gross
23 state product are slightly higher. You notice that the
24 low end for CRA in terms of gross state product
25 corresponds to the high end for ARB, and their range from

1 -1.4 and 2.2 percent. And correspondingly, the impacts on
2 cost per household are higher.

3 I just mentioned briefly that the federal models
4 IGEM and Adage used to look at Waxman-Markey come up with
5 a cost per household of 80 to \$146. But that's for
6 somewhat -- of course, this is at the federal level and in
7 some sense it's a less stringent policy, because the
8 emissions reduction is 17 percent rather than 25 percent.

9 Very recently, in fact, I think it was two days
10 ago, there was a study by Thomas Tanton that came out and
11 suggested much higher costs per household. In fact, it
12 suggested the cost per household was not the 1,054, which
13 is from my calculations using some of its own input, but
14 he suggested it was \$2800 per household. So there you
15 have a study that suggests it's much higher. And the now
16 infamous varsity study suggests it's even higher than
17 that.

18 So the next slide.

19 --o0o--

20 PROFESSOR GOULDER: What should we make of these
21 differences?

22 I think Paul did an excellent job in explaining
23 the differences, and I don't want to repeat what he said.

24 The reason I think it really comes out very
25 cleanly, because they did a very nice analysis where they

1 replaced their own assumptions with some of the
2 assumptions of ARB, and lo and behold, at that point, the
3 difference in results ended up being largely eliminated.
4 So it has to do with what you think of as the potential of
5 these complementary policies. And underlying this -- and
6 this I think Paul didn't mention but is useful, why might
7 we think the complementary policies are less expensive or
8 much cheaper, even in some case zero cost, compared to
9 being more costly than when you add them in as in the CRA
10 model.

11 I think it has to do with whether you think
12 beyond the market failure associated with greenhouse gas
13 emissions there are other market failures. If as in the
14 central case for Charles River model you believe the only
15 market failure that applies is the one that is due to the
16 emissions of greenhouse gases, then you can correct all
17 the market failures you need to correct by introducing
18 through cap and trade a price on greenhouse gases.
19 There's no other market failures to deal with. Anything
20 else you try to do, such as introducing a complementary
21 policy on top of cap and trade, is superfluous and costly.

22 So, for example, if you think there are no other
23 market failures, there's no reason to have building energy
24 efficiency standards on top of cap and trade. Cap and
25 trade will do everything you need. Adding an energy

1 efficiency standard if it's binding is only going to
2 introduce greater costs.

3 In contrast, if you think that there are agency
4 problems or information problems or other rigidities that
5 the price system alone is not going to undue, then, in
6 fact, an energy efficiency standard could be a very low
7 cost item -- in fact, lower than cap and trade. And it
8 lowers the overall cost of meeting your target.

9 Well, effectively there's almost a religious
10 debate among economists as to whether, in fact, there are
11 these market failures. And it's a shortcoming of economic
12 analysis that hasn't been worked out. We just don't know.
13 Different people take different views about the scope of
14 these other market failures. Virtually everyone -- and
15 I'm sure Paul on my left would agree -- that there are
16 some other market failures. We just don't know how
17 quantitatively important they are.

18 This is a valuable exercise that Charles River
19 has done in showing market failures to guide future
20 research.

21 My last question would be: Does it matter? My
22 own view is you might want to narrow the difference
23 between the CRA and the ARB models. But even if you take
24 the span from both of the models together, I still think
25 it's relatively modest. I don't consider 2.2 percent

1 change in growth state product relative to the fact over
2 the next 12 years you're going to have 29 percent growth,
3 that that's going to be such a big deal. But I realize
4 that different people have different assumptions about
5 that.

6 Finally, I read yesterday the Tanton study and I
7 just want to mention that in contrast to ARB and CRA work
8 where there is some biases in one direction and some
9 biases in other, but there's an attempt to get it right.
10 I'm struck by the fact in the Tanton study all of the
11 omissions or mistakes go in one direction. They all bias
12 towards higher cost. There's no potential for fuel
13 substitution fuel substitution. There's no technological
14 change. The focus is on \$60 per ton allowance price
15 forever starting now, even though no one believes that the
16 allowance prices initially would be that high.

17 And in keeping with what I mentioned earlier,
18 that is in previous talk earlier the afternoon, it makes
19 the mistake of equating allowance value with cost, which
20 is why they get this \$2800, ignoring the fact that
21 allowance value stays in the economy. Much of it goes
22 back directly and indirectly to households.

23 And, finally, there is a number of other
24 misleading aspects. It assumes that the costs are due to
25 auctioning were, in fact, price impacts as mentioned

1 really think this is a serious issue. I think that the
2 folks at ARB have done a tremendous job given the number
3 of people involved. But there are really only I think
4 three economists working on climate change policy in this
5 group. Each of them has done a wonderful job
6 individually. But because of the numbers, they haven't
7 been able to do a lot of things which we would have hoped
8 they'd have been able to do. I think I'm very cognizant
9 of the fact that California is facing a severe budget
10 crisis, but I think it's an unfortunate allocation of
11 resources to only have three economists doing the economic
12 impacts analysis. While it helps to bring in outsiders, I
13 think you want to have more in-house work. So I would
14 make a strong pitch for that.

15 And perhaps, Steve, you want to make a comment.

16 CHAIRPERSON NICHOLS: Yes, I do. I'm looking at
17 the clock, because I was planning on leaving at 5:30 to
18 try to catch a flight, but other members I know can stay
19 at least a little bit past that. But take a minute or
20 two.

21 MR. LEVY: Couple of points.

22 The people in the room who did the public
23 testimony have been respectful through the nine or ten
24 meetings that we have heard from, really the same group of
25 people. Some of the environmental groups I'm a

1 card-carrying member of. They represent two sets of
2 specific interests. Our work and the staff's work in the
3 analysis was to incorporate their interest, the
4 energy-intensive industries, the low-income communities.
5 But to ask about the common interest, the general economic
6 impact, the people who don't come and testify.

7 In that regard, this is a thorough but partial
8 analysis to an economist by the staff's own admission and
9 by our report. We leave out potential benefits on health,
10 on the environment, on the reduction of co-pollutants, on
11 the potential for jump starting a new industry. They're
12 not part of this economic analysis, but they're part of an
13 economic analysis that should guide policy. And they list
14 a set of benefits that need to be included with the cost
15 on output and jobs that are talked about here.

16 Last point, we're into a discussion about what is
17 small at a time when people are hurting. We've lost ten
18 percent of our jobs in 24 months and suffered a decline in
19 real income.

20 Here, we're talking about whether over eight
21 years jobs grow by X or X minus one percent and whether
22 income grows by, as Larry said, 29 percent in real terms
23 or a little less than 28 percent.

24 All of the members of the Committee would have
25 characterized, did characterize those as small relative to

1 the size of the economy. And as Larry said, they occur,
2 the larger ones, only in 2020 and only if the
3 complementary policies are unsuccessful.

4 Larry mentioned at the beginning and I'll end
5 with as you go forward to defuse some of the uncertainty
6 and some of the fear, we think it would be very helpful
7 for the staff to focus on an earlier year, perhaps 2015,
8 to use updated economic inputs, which in contrast to what
9 Paul suggested, are going to be even lower than what CEC
10 did in the 2009 IPR. This stuff I do for a living so I
11 can tell you in the 2010 IPR the numbers are going to be
12 lower, but that you take not just a 2020 look, but a look
13 at the more immediate impact, because that's the subject
14 that you're getting hit with as you strive to make a
15 policy choice.

16 CHAIRPERSON NICHOLS: Thank you for that good
17 advice.

18 Does that conclude all of the presentations then
19 at this point?

20 Okay. Well, as I indicated earlier, there's time
21 to digest this and to talk about it. And I think we'll
22 have an opportunity to ask questions at the April 21st
23 meeting that's currently being scheduled.

24 If there is anybody who feels that they
25 absolutely must speak at this time on this issue -- on

1 this issue? I thought you wanted to talk about what you
2 sent us earlier on public comment. You want to speak
3 about the modeling? Okay.

4 BOARD MEMBER TELLES: Can I just ask one burning
5 question?

6 On slide 14 of the first presentation where it
7 shows the incomes -- and we talked about the incomes not
8 being that much different between business-as-usual versus
9 including the plans, and you talk about cost. But in
10 talking about costs, as I understood you, you're talking
11 about cost as reduction of gross national product per
12 capita. But what would be the actual consumer cost? In
13 other words, sure, you're making 29 percent more, but is
14 the consumer cost 29 percent? 39 percent? 40 percent?
15 Cost of goods and services. In other words, are people in
16 California going to have more disposable income or less
17 disposable income based upon this?

18 PROFESSOR GOULDER: I meant to indicate over that
19 time period from now to 2020, consumer income would rise
20 by 29 percent. And that according to the ARB's analysis,
21 in the worst case, it would rise by only a little more
22 than 27 percent.

23 BOARD MEMBER TELLES: I'm talking about consumer
24 cost.

25 PROFESSOR GOULDER: Adjusted for inflation.

1 BOARD MEMBER TELLES: I'm talking about consumer
2 cost. When you go out to a store and you buy goods and
3 services, how much --

4 PROFESSOR GOULDER: The difference between those
5 two is, in fact, the consumer cost. It's the difference
6 in real purchasing power -- the difference between the 29
7 and the 27-and-a-half. And the numbers given there is
8 meant to be the consumer cost.

9 BOARD MEMBER TELLES: I mean, the difference was
10 just a total per capita income. You were mentioning there
11 was 42,000 versus 47,000 or something like that. I'm
12 talking about cost. You know, how much you spend on your
13 budget as a person.

14 MR. KENNEDY: Let me attempt to jump in, and then
15 the economists can correct me if I'm wrong.

16 I believe what we're looking at is essentially a
17 net number that incorporates both any increase in income
18 and changes in the cost that the consumers would see. So
19 the number you're seeing here actually does incorporate
20 the cost you're concerned about. It's a net difference
21 we're looking at.

22 BOARD MEMBER TELLES: I think, I mean, per capita
23 income to me is per capita income and not --

24 PROFESSOR GOULDER: I think the fact it's real
25 income adjusted for changes in the price of goods is what

1 accounts for the changes in consumer cost.

2 BOARD MEMBER TELLES: It's real income adjusted?

3 PROFESSOR GOULDER: It's real income adjusted.

4 CHAIRPERSON NICHOLS: Okay. Go ahead, Charlie.

5 MR. PETERS: Thank you very much, Madam

6 Chairwoman and Committee.

7 Mary, I think you're absolutely right that this
8 is not specifically laid out in your presentation today.
9 However, the Air Resources Board is very definitely
10 involved in this with a press release out indicating huge
11 amounts of fraud in the system of smog check. And we
12 believe that this could make a very significant
13 contribution to helping with your reductions in CO2 and
14 the economics of the state of California.

15 If my numbers have any validity at all, those
16 kinds of reductions and the value of those reductions
17 could also possibly be a very significant financial
18 improvement and give you lots more flexibility to help
19 address these issues.

20 So I would petition the Committee, the Chair and
21 the Committee, to give consideration to incorporating this
22 in your deliberations and seeing if it matters at all.
23 And would like very much to see some conversations about
24 these possibilities of improving the performance and
25 improving what we're doing, because we think the public

1 deserves much better than what we've been getting.

2 CHAIRPERSON NICHOLS: Thank you. We agree with
3 you about the need for a smog check improvement. I know
4 we are working with -- the Legislature is working on a
5 bill to try to start us in that direction. So thank you.
6 You've been very persistent over the years in your
7 criticisms of the program, and now you've finally got some
8 traction on some of it anyway. Good work.

9 Okay. A number of other people have signed up.
10 If any of you feel compelled to speak at this time, you
11 may. Otherwise, we would welcome you back on April 21st.

12 In the open comment period, there is an open
13 comment period. Jim Rothstein wants to talk about solar
14 cooperation with Jiangsu Province.

15 MR. ROTHSTEIN: Thank you.

16 Jim Rothstein, no affiliation.

17 I appreciate your listening to me. Yesterday, I
18 was at the Energy Commission. They said they'd stay until
19 midnight but promptly adjourned for lunch before lunch.
20 So thank you.

21 In October 2009, the state of California and
22 Jiangsu Province in China signed an MOU to work together
23 in areas related to energy, energy efficiency, greenhouse
24 gas reduction, specifically in areas of policy, standards,
25 codes, training, market development, as well as

1 technology.

2 Under that MOU, ARB is the lead agency. I
3 support genuine cooperation with China and I believe this
4 will benefit a return on investment to California and this
5 country.

6 Speaking specifically to this six-month-old MOU,
7 can you please give me the accomplishments to date in the
8 eight areas covered by the MOU? For example, there's
9 technology sharing, joint development, RD&D, best
10 practices, harmonizing standards and codes,
11 certifications, green buildings, academic and student
12 exchanges, market development for PV, training, policies,
13 data management, as well as a Steering Committee.

14 Also, I have been promised a copy of discussions
15 of a group called C3, which has been organized by
16 Secretary Adams, but I have not been able to get a copy of
17 that. I'd like to do that -- not today. I can come back
18 tomorrow.

19 And in general --

20 CHAIRPERSON NICHOLS: We won't be here tomorrow.

21 MR. ROTHSTEIN: Is it a furlough day?

22 CHAIRPERSON NICHOLS: The Board won't be meeting
23 tomorrow. The Board members don't have to come when it's
24 not a Board meeting day.

25 MR. ROTHSTEIN: I'm here today then.

1 CHAIRPERSON NICHOLS: Look, you have information
2 you're seeking. We cannot provide it here on the spot,
3 nor do I think you could reasonably expect us to do that.
4 But I happen to know the person who has the information
5 you wish to have about the MOU with Jiangsu Province.
6 She's the China advisor to --

7 MR. ROTHSTEIN: I've spoken to her.

8 CHAIRPERSON NICHOLS: She's the source of the
9 information. So if she doesn't have it, it doesn't exist.

10 MR. ROTHSTEIN: So there's no status? Nothing
11 has been done on this MOU?

12 CHAIRPERSON NICHOLS: No report has been
13 prepared. You want us to require a report to be prepared.

14 Why don't you send me a letter or e-mail or note
15 and we'll follow up with some information?

16 MR. ROTHSTEIN: Is something not clear? I asked
17 for the accomplishments under this six-month-old MOU.

18 CHAIRPERSON NICHOLS: Please send it to me in
19 writing and you will get a response in writing. I can
20 promise you that.

21 Thank you. Okay. Anything further?

22 If not, the meeting is adjourned. Thank you all
23 so much.

24 (Thereupon the California Air Resources Board
25 adjourned at 5:25 p.m.)

CERTIFICATE OF REPORTER

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I, TIFFANY C. KRAFT, a Certified Shorthand

Reporter of the State of California, and Registered

Professional Reporter, do hereby certify:

That I am a disinterested person herein; that the

foregoing hearing was reported in shorthand by me,

Tiffany C. Kraft, a Certified Shorthand Reporter of the

State of California, and thereafter transcribed into

typewriting.

I further certify that I am not of counsel or

attorney for any of the parties to said hearing nor in any

way interested in the outcome of said hearing.

IN WITNESS WHEREOF, I have hereunto set my hand

this 8th day of April, 2010.

TIFFANY C. KRAFT, CSR, RPR

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