For the Public Record

August 24, 2008

To: ARB

Re: Comments regarding April 25th workshop on Cost Containment

The Climate Protection Campaign's previous comments to ARB regarding the design of a carbon market in California were:

1) An upstream system
2) 100% auction of permits
3) Compensating consumers on a per capita basis - "Cap and Dividend"
4) A price floor on allowances (which could be accomplished through a carbon fee)

The fourth recommendation, a price floor on allowances, is relevant to today's workshop. As mentioned above, a price floor on allowances may be accomplished through a carbon fee, and would reduce low-end price volatility. The price floor can be announced early in each phase, and provide incentives for long term investment in low-carbon technologies.

Generally, we support other environmental organizations that are skeptical of a price ceiling because it would encourage reluctant companies to trigger the safety valve rather than change their business practices.

Another important design element is to allow for States participating in the WCI to buyback or buydown the allocations regionally. It is important not to penalize California for making further reductions than the regional cap. In other words, if California makes steep reductions, then another state in the WCI should not be allowed to generate more emissions. This could be accomplished by allowing the state or actors within the state to withhold, buy back, buy down, or retire allowances.

Within California, the State should be given the ability to remove allowances from the market in the case of an overallocation. This is another reason to auction 100%. If some allowances are given to companies for free, the State would have to buy them back, which provides the windfall that we are trying to avoid. Although we do not believe the allowance is a property right (the SO2 allowances are not property rights, and we believe the ownership of the sky belongs to the people of California, not to the company holding the allowance), so-called "property rights advocates" may make legal arguments that they are, and the State should be protected, and have the financial ability and legal authority, to remove excess allowances given a clear market signal.

The Federal Reserve is a nice theoretical model for a group of economic experts shielded from politics making decisions for the public good. However, the Fed is not a good model for a carbon market institution, since the Fed is essentially a cartel of private banks who bail out their largest members, but have, since Milton Friedman's time, not used their powers to help the average American. In the case of carbon allowances, the sky belongs to everyone. Will the proposed Market Oversight Committee have this as a guiding principle? Or will their goal be to make the largest corporations "whole," while the rest of us deal with price increases (or food riots as in Haiti)? For example, if LADWP wants to keep coal prices low, while California's ecosystems and AB32, require a rising carbon price, what will the Market Oversight Committee do?

At a broader level, there will probably be a need for a group of market experts empowered to intervene in the carbon market, subject to specific rules. Californians will not want to put their electricity and fuel prices completely at the whim of a "free market" that can be manipulated at will by Enron-type corporations.

Thank you for your consideration.

Sincerely,

Mike Sandler

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