

Comments on the AB 32 CEQA Evaluation
Submitted by Ken Johnson (unaffiliated) on November 10, 2008

Section V.G of the CEQA document (Appendix J to the AB-32 Proposed Scoping Plan) discusses a Carbon Fee option and states the following: “Because a carbon fee and a cap-and-trade program both force covered sources to either reduce emissions or pay for those emissions, the economic incentives under the two programs are similar.” This is untrue. Cap-and-trade systems are characteristically susceptible to price erosion or collapse, which can greatly diminish economic incentives for emission reduction, whereas a carbon fee would maintain stable price incentives. However, the document also notes that “a carbon fee does not provide certainty in terms of the amount of emission reductions that will be achieved,” and on this basis rejects a carbon fee as an alternative to cap-and-trade.

The policy tradeoff between a carbon and cap-and-trade can be circumvented by employing a price floor in the context of cap-and-trade, which would guarantee the cap while also guaranteeing a minimal price incentive for emission reductions. By incentivizing early action in advance of declining caps, a price floor would provide *greater* certainty of achieving the 2020 emission limit than either a carbon fee or cap-and-trade operating alone.

The Proposed Scoping Plan does not identify a price floor as a recommended measure for AB 32 implementation, and the CEQA document does not identify it as a project alternative. The omission is neither minor nor inconsequential because the statutory requirement of AB 32, Sec. 38560 might not be achieved without a price floor. This can be explained as follows: If ARB’s projected trading price of \$10/MT for the cap-and-trade system is accurate, then the regulations will incentivize adoption of feasible and cost-effective emission reduction measures having marginal costs of up to \$10/MT. But if the trading price is significantly below initial expectations (as has been the case with prior cap-and-trade systems such as the U.S. SO₂ trading program), then many of those measures may fail to be implemented even though they remain equally feasible and cost effective. Consequently, the emission reductions achieved under AB 32 could fall far short of the “maximum technologically feasible and cost-effective” reductions require by statute and by the imperatives of climate change.

ARB staff has received comments and recommendations relating to a price floor, for example, from the Market Advisory Committee, which advised ARB to consider a price floor. As noted in the June, 2007 MAC report, “A price floor has the attraction of giving investors certainty that the price of emission allowances would never fall below a specified level ... a price floor would reinforce environmental integrity and the value of clean investments. The Committee encourages CARB to consider enforcing a price floor.”

Unless a price floor is proposed as a recommended measure, it should be identified as a project alternative in the CEQA Evaluation, and ARB should explain its rationale for not implementing a price floor.