

Economic and Allocation Advisory Committee

Allowance Value Provision Subcommittee

Justin Adams * Matt Barger * Jim Boyce * Dallas Burtraw *
Robert Fisher * Larry Goulder * Dan Kammen * Nancy Sidhu

Progress Report
August 13, 2009

- Definition:
 - Allocation of free allowance or cash from auction of allowance
- Function or Purpose of Allocation Alternatives:
 1. Compensation
 2. Investment
 3. Dividends
 4. Tax Relief and Treasury

1. Compensation

- Compensation to offset direct and potentially indirect impact of carbon pricing on affected producers, employees, and/or consumers
- Considerations:
 - Emphasizing transition relief (short term) or compensation (long term)?
 - Not undermining price signals of new carbon market through structure of compensation
 - Potentially address regressive nature of carbon pricing through income-targeted, consumer compensation

1. Compensation (cont)

- The extent of losses to CA firms absent free provision of allowances or some other form of compensation. The magnitude of these losses depends on:
 - The cost-impact of cap and trade in given industries
 - Depends on reliance on carbon-based fuels and potential for fuel-switching
 - The ability of firms within given industries to pass through these costs
 - Depends on elasticity of demand (related to import competition) and of supply (related to mobility of physical capital)

2. Investment

- Investment of revenue from auction of allocation value to advance broad range of purposes enunciated in AB32. Potential alternate investments include:
 - Direct investment in (purchase of additional GHG emissions reductions to support) the development/deployment of low carbon technologies
 - Address specific gaps, imperfections, or opportunities in the carbon market to serve as a catalyst for public and private participation (e.g., vehicle demonstrations for clean transportation alternatives or efficiency improvements in rental properties)
 - Allocate funds to CA universities and research facilities for RD&D dedicated to technologies with potentially high GHG emission reduction value

2. Investment (cont)

- Support a green technology workforce training program
- Consumer rebates for investments in energy saving equipment
- Incentives to local governments to support:
 - Land use planning and infrastructure projects that could lead to shorter commutes, more efficient buildings, and increased walking, biking and use of public transportation
 - Recycling, composting, and local renewable energy projects
- Seek Environmental Justice investments that decrease GHG and/or increase co-benefits in disadvantaged communities
- Purchase direct GHG reductions either through purchase of allowances for retirement or in projects such as reforestation or CO₂ sequestration projects

2. Investment (cont)

- Climate change adaptation programs, with a particular interest in assisting communities or industries that are disproportionately affected by climate change or by climate change mitigation efforts
- Manage potential early carbon market volatility, acting as a market maker as needed
- Administration of the GHG program
- Considerations:
 - Desire to benefit CA competitively as a center of GHG reduction technology and business development
 - Don't crowd out but rather act in concert with private investment in green technology businesses
 - Particularly want to encourage early innovation/adoption of GHG reduction technologies
 - Is it desirable to recycle revenue within the sector (e.g., electricity generation) from which it was generated?

3. Dividend

- Direct refund of auction revenues on an equal per capita basis to the public (so called “Cap and Dividend”)
- Considerations:
 - Policy option singled out by Governor Schwarzenegger’s May 22, 2009 letter to EAAC
 - Allow all to share equally in the ownership of this recently created property right
 - Protection of household real income affected by higher fossil fuel prices resulting from the cap
 - Build durable public support for carbon policy through simple equitable and transparent return of revenue

4. Tax Relief and Treasury

- Sending revenue to Treasury to offset tax revenue lost due to specific business tax reductions or for general, unspecified governmental use. Alternative tax changes could:
 - Compensate affected industries
 - Encourage business to take actions furthering the goals of AB32 (e.g., energy efficiency investment tax credit)
 - Provide general tax relief to business and/or individuals affected by the general increase in costs in California as the impact of AB32 filters through the economy
 - Provide new revenue stream for CA Treasury

4. Tax Relief and Treasury (cont)

- Considerations:
 - Address issue of general CA business competitiveness
 - Shouldn't legislature be making decisions on the margin between, for example, funding a new GHG reduction effort or spending on State parks?