

Economic and Allocation Advisory Committee

November 18, 2009 Meeting

EAAC Roles

Economics role:

- identify key model inputs, models used, results to date
- consider potential alternative inputs and models
- advise ARB on modeling of economic impacts; comment on ARB's assessments

Allocation role:

- develop analytical frameworks, identify and evaluate options concerning:
 - use of various allocation methods (free or auctioning)
 - provision of allowance value

Today's Agenda

1) Opening Remarks (Today's Agenda, Timetable)

2) Discussion of Allocation Report

- a. Allowance Distribution Methods**
- b. Magnitude of Allowance Value**
- c. Allowance Value Provision Options**
- d. General Discussion**
- e. Public Comment**

3) Discussion of Recommendations

- a. General Discussion**
- b. Public Comment**

Lunch

4) Economic Impacts Analysis Update

- a. Overview**
- b. General Discussion**
- c. Public Comment**

Criteria for Evaluating the Options

- Cost Effectiveness
- Fairness
- Environmental Effectiveness
- Simplicity

Criteria for Evaluating the Options

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- Environmental Effectiveness
- Simplicity

These connect closely with stated objectives of AB 32. The Act stipulates that regulations should be designed in a way that ...

- Seeks to minimize costs; minimizes the administrative burden
- Designs the regulations in a manner that is equitable; ensures that compliance with the regulations does not disproportionately impact low-income communities; directs public and private investment toward the most disadvantaged communities in California
- Minimizes leakage; ensures overall social benefits, including reductions in other air pollutants

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Method for Allowance Distribution

1. Auctioning vs. Free Allocation

(General support for 100% auctioning in medium or long run; also some support for auctioning from the outset)

- Any free allocation in shorter term?
 - for industry compensation?
 - if so:
 - what would be the criteria for allocating to various firms?
 - what form of free allocation in this case? (seems to suggest exogenous)
 - to deal with leakage?
 - if so:
 - why short-term only?
 - what form of free allocation in this case? (seems to suggest output-based)
 - for some other purpose?
 - if free allocation employed, should it be direct? via LDCs? via other channel?

2. Method of Auctioning

- sealed bid vs. multiple round?
- uniform price or discriminating price?

Use of Allowance Value

1. Compensation?

- if so, to which parties?
 - to industry? (shareholders?)
 - if so, to which ones?
 - to displaced workers?
 - to disproportionately affected consumers (low-income households)?
 - to communities experiencing increased pollution?
 - other?

2. Dividends to the Public?

3. Tax Rate Reduction?

4. Investments and Other Public Expenditure?

- if so, which type of investment or expenditure?
 - environment-related:
 - funding to support adoption of existing clean technologies?
 - funding to support invention of new clean technologies?
 - funding to support environmental remediation?
 - funding for adaptation?
 - support for new infrastructure?
 - other capital investments?
 - investments in job training?
 - investments in disadvantaged communities?
 - transfers to regional or local government agencies?
 - other public expenditure?