



California Council for Environmental and Economic Balance

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Testimony of Robert W. Lucas at Assembly Natural Resources Committee on March 10, 2014

My name is Robert Lucas I am here on behalf of the California Council for Environmental and Economic Balance, a nonprofit, nonpartisan coalition of business, labor and public leaders that works to advance policies that protect public health and the environment while expanding economic opportunities for all Californians. CCEEB supports the successful implementation of AB 32, it is within that context that comments are offered today.

CCEEB appreciates the opportunity to address the Committee today.

1. The Scoping Plan Update is clearly the result of considerable work

- a. CCEEB is concerned that this Draft Update does not include any economic analysis or feasibility studies for many of the discussed topics.
 - i. AB 32 is very clear that regulations and strategies for the reduction of GHG emissions be technologically feasible and cost-effective.
 - ii. A properly performed and updated economic evaluation would better inform the ARB planning activities.
 1. Specifically, CCEEB urges the Board and staff to consider including discussions of commercially available and scalable technologies as opposed to discussions of speculative and theoretical technologies.
 2. Furthermore, an economic analysis should be completed before adopting the Scoping Plan update.
 3. Waiting until 2018 for an economic analysis is too late.

2. If the AB 32 program is going to survive it needs to include a viable trading program to keep compliance costs down across the program.

- a. Cap-and-Trade is the only component of AB 32 that will have global implications and the ability to move sub-regional, national, or international governments to join or participate with California's efforts

3. Lowering costs of compliance will keep consumer and ratepayer costs down.

- a. Direct regulations increase the costs of compliance and also create different marginal costs of AB 32 in different sectors of the economy. An economy wide Cap-and-Trade creates a more equitable program with a singular and transparent carbon price.

4. Low cost compliance may also entice other States to follow California's program.

- a. Climate change is not a problem that California can solve alone.
- b. AB 32 will be successful if other states, regions, and countries join our effort.
- c. As a greenhouse gas emission reduction program, AB 32 and any post-2020 goal California may choose to set will make no statistical impact on worldwide greenhouse gas emissions and therefore no impact on climate change.

5. **Cap-and-Trade provides the only tool to allow compliance entities to achieve the lowest incremental cost of compliance.**
6. **Central to a successful trading program is the use of high quality offsets that must meet strict requirements.**
 - a. Among other requirements that an offset must meet is additionality.
 - i. Additionality, is a strict requirement that activities that result in GHG reductions and GHG removal enhancements are not required by law, regulation or any legally binding mandate in the offset project's jurisdiction and would not otherwise occur in a conservative business-as-usual scenario.
 1. Methane and Flourinated Gases which are discussed as part of a short-lived climate pollutant strategy can be handled through offset protocols that would create an economic incentive to mitigate these emissions.
 - a. There are co-benefits in the capture and use of methane that may be lost through traditional command and control measures.
7. **The Scoping Plan, as currently proposed with a sector-based approach, encourages and requires the decentralization of AB 32 implementation among quite a few other agencies.**
 - a. Sector specific targets are going to hurt the overall policy. There should be equity in policy not equity in technology.
 - b. This proposed decentralization to other State Agencies, Boards, Departments, and Offices may result in many more direct regulations, thus increasing the cost of compliance that will be borne by state residents.
 - c. A non-cohesive policy will be inefficient and not cost-effective
 - i. Cost-effectiveness is a principle tenant of AB 32. Decentralized policies throughout state government increase the complexity of the program which in turn increases the compliance costs.
 - ii. AB 32 policies should be centralized with ARB as the sole lead agency. Assistance and expertise from others Agencies, Boards, Departments, and Offices is recommended but in order to keep this policy coherent, and understandable it should not be shifted to over a dozen different Agencies, Boards, Departments, and Offices within state government.
8. **We are also concerned that this broad delegation has a high potential that new rules will be developed across the State Agencies, Boards, Departments, and Offices which may take away additionality from the program and eliminate potentially viable offset projects.**
9. **Cost-effectiveness of each AB 32 policy should be examined in the context of the entire suite of AB 32 policies.**
 - a. Examination of individual measures alone does not provide a real picture of whether Californians are receiving the most out of the dollars spent for AB 32 compliance.
 - b. The current low cost of carbon has more to do with the economy than cost-effectiveness.
 - i. California policy makers should be concerned about the costs in the future.
 - ii. Complementary measures create a negative effect on cost-effectiveness and may also negatively influence the market price of carbon.

10. Finally, as others have, or will address today, CCEEB is concerned that the planning horizon is too long. We should use the Scoping Program to fine tune the implementation of the current requirements of AB 32.

- a. California's future planning should take into consideration Federal recommendations and potential commitment that are expected in the 1st quarter of 2015.
- b. There are still many programmatic fixes that should be worked on before looking beyond 2020.
 - i. The recession has significantly lowered emissions which should not be confused with an efficient and cost-effective climate program.

CCEEB looks forward to working with the Committee, Legislature, Administration, ARB and Staff moving forward and will provide more detailed written comments. Thank you for considering our testimony today. If you wish to discuss this matter further, please contact Bob Lucas or Mikhael Skvarla at 916-444-7337.