



BIG VISION, BOLD ACTION

The mission of the Climate Protection Campaign is to create a positive future for our children and all life by inspiring action in response to the climate crisis. We advance practical, science-based solutions for significant greenhouse gas reductions.

www.climateprotectioncampaign.org

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April 14, 2008

To: WCI Allocations Design Subcommittee

Re: Comment on WCI Allocations Draft Design Recommendations

Strategic Advisors

Peter Barnes, Co-founder,
Working Assets
Jane Bender, Councilmember,
City of Santa Rosa
Ernie Carpenter,
Former County Supervisor
Kimberly Clement, Attorney
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George Snyder, Journalist
Hugo Steensma, Sustainable
Asset Management
Alan Strachan, Developer

The Climate Protection Campaign's previous comments to the WCI advocated for:

- 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)

Science & Technical Advisors

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Auction 100%, No Phasing

The benefits of phasing in auctioning are unclear. To whom do those benefits go? Auction revenues that could otherwise be returned to consumers through a rebate or dividend would be taken from consumers and given, presumably, to large emitters in order to prevent them from feeling the full impact of the price signal. Isn't the whole point of cap and trade to create a price signal? The announcement of 100% auctioning would provide the lead time for large emitters to begin reducing their emissions. But announcing a "phase in" would encourage large emitters to wait and see, similar to RECLAIM, and to lobby for a more lenient "phase in" (delay) period. They may also invest in lobbyists to change regulations or pass new laws. 100% auction is the only way to discourage those activities, because it will provide a level playing field and signal that a price signal is coming with less direct interference.

Auctioning 100% will help with price discovery in the early years when inventories are being developed. The risk will be carried by the purchasers rather than by the States or WCI.

Phasing in the auction will provide windfall profits for businesses, but will not help consumers. Consumers will bear the cost under any allocation method. However, with a consumer dividend or rebate, they will receive compensation. Under a giveaway, they receive nothing, while big business receives a hand-out. People may (correctly) see this as unfair, and be biased against tighter emission caps and other climate policies in the future, if they think it will only enrich the fossil fuel industry at a time when oil is \$100/barrel and gas is moving toward or above \$4/gallon.

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100% auction automatically rewards early action. Companies that have reduced emissions would need fewer permits. In an upstream auctioned system, the price signal automatically rewards downstream companies that have reduced their need for fuel and electricity. It is the fairest and least discriminatory approach.

Allow for States 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.

Other Issues

It is best to include transportation at the beginning. It will be harder to include it later, and the design of the system should assume from the beginning that transportation will be included.

The cap needs to generate a price signal throughout the economy. There must be an escalating price floor on emission permits, and revenues must be recycled to consumers. An agency or trust must be empowered to tighten the cap or accelerate reductions in allowance provisions if the cap is not having an effect (through over-allocation or outside circumstances). The cap should not act as a minimum for emissions, and the goals should not be undermined by safety valves or loosening of emission levels. If those basic elements are not in place, then it might be better to focus on regulatory measures in order to assure emission reductions take place. If those elements are in place, then a cap and trade program can help motivate consumers and businesses throughout the economy.

Finally, the best use of auction revenues is to compensate consumers. This may be accomplished through a per capita rebate, dividend, or share given to all residents in the WCI. It accomplishes the goals of environmental justice and equity. More information on consumer compensation may be found at the following websites:

www.capanddividend.org, www.carbonshare.org, or www.climateprotectioncampaign.org.

Sincerely,

Mike Sandler
Carbon Share Program Manager

Ann Hancock
Executive Director