



# AB 32 Implementation Group



Working Toward Greenhouse Gas Emission Reductions  
And Enhancing California's Competitiveness

March 12, 2010

The Honorable Mary Nichols  
Chair, California Air Resources Board  
1001 I Street  
Sacramento, CA 95814

**RE: AB 32 Scoping Plan Economic Analysis**

Dear Chair Nichols:

As a result of the feedback provided by the California Air Resources Board (CARB) peer reviewers with respect to the original AB 32 Scoping Plan Economic Analysis, the ARB Board requested a second economic analysis be completed by December 2009.

We are very concerned that the analysis has not yet been completed, and that AB 32 regulatory work is ongoing despite the lack of the valid analysis critically important to help inform the process. We request that you consider the following:

We have been informed that a draft of the economic analysis may be issued sometime during the week of March 15<sup>th</sup>, and on March 25<sup>th</sup> will be presented to the CARB Board. One week is insufficient time for the public and stakeholders to review a document of this importance and complexity. We request that the board presentation be postponed until 30 days after the release of the economic analysis so it can be peer reviewed and the public has time to review the analysis and provide input to the Board.

Also, because of the significant materiality of the economic analysis to the proposed cap-and-trade regulation, we suggest that CARB postpone release of the draft regulation until the analysis has been completed and peer-reviewed. This will allow time for staff to thoroughly consider findings from the analysis and related public comments.

-- More --

We will be looking for answers to the following questions in the economic analysis:

- Does the economic analysis assess the cost implications of alternative policy designs through scenario analysis? For example:
  - Offsets policy
  - Interim (pre-2020) targets
  - Strategic reserve/borrowing
- Does the economic analysis consider the uncertainty of cost estimates through scenario analysis? Does CARB integrate the implications of such uncertainty into its program design?
  - Effectiveness of complementary AB 32 policies
  - Economic growth
  - Consumer responsiveness to price signals
  - Technology (nuclear, carbon sequestration, biofuels, energy efficiency, etc.)
  - Fuel Costs
- Does the modeling appropriately capture key details of California's economy that will affect economic outcomes? For example, does it capture details of power markets and regulation that will affect rate impacts (e.g., regulation of GHG's in power imports, and wholesale market prices set based on marginal, not average costs)?
- Does the model provide realistic assessments of energy price impacts, impacts on household incomes, jobs impacts and impacts on energy intensive trade exposed industries?
- Has CARB used its economic analysis to refine, improve, or otherwise modify any AB 32 Scoping Plan policies?
- Does the economic analysis evaluate complementary AB 32 policies based on costs and emission reductions that are incremental to actions already undertaken as a consequence of the cap-and-trade system? How does the economic analysis consider interactions between these complementary policies?
- How has CARB used its economic analysis to identify which AB 32 policies to implement? How do these decisions consider the policy's cost-effectiveness, and is such cost-effectiveness measured as incremental to the cap-and-trade system?

-- More --

- When evaluating individual complementary policies, does the economic analysis consider alternative policy/program designs to best inform decisions regarding policy design (sources targeted, stringency of policy/source requirements, funding, etc.)?
- Does the economic analysis consider the uncertainty in costs and emission reductions achieved? How does CARB consider the implications of such uncertainty in its policy design?
- Has CARB modified its economic analysis to address concerns raised about appropriate and consistent treatment of baseline and incremental policies?

Thank you for considering these requests.

Sincerely,



DOROTHY ROTHROCK  
Co-Chair, AB 32 Implementation Group  
Vice President, California Manufacturers &  
Technology Association



MARC BURGAT  
Co-Chair, AB 32 Implementation Group  
Vice President – Government Relations  
California Chamber of Commerce

cc: CARB Board Members  
Virgil Welch  
James Goldstene  
Kevin Kennedy  
Steven Cliff  
Edie Chang  
Dan Pellissier  
John Moffatt