

# California Legislature

June 19, 2017

Governor Jerry Brown  
State Capitol, First Floor  
Sacramento, CA 95814

Dear Governor Brown:

We strongly support California's world-leading policies to reduce greenhouse gas (GHG) emissions, including the statewide 2030 target and related policies enacted last year by SB 32 and AB 197. And we appreciate your unwavering commitment to continue California's environmental leadership in the face of retreat and withdrawal by the Trump Administration.

We recognize the role that cap and trade can play as part of a balanced mix of measures to meet the 2030 target. However, if cap and trade is extended, we believe it must be designed in a manner that maintains environmental integrity, supports our long-term climate and air quality goals, and assures that disproportionate pollution burdens are alleviated, not exacerbated. We do not support proposals to use cap and trade to let major polluters off the hook for achieving real emission reductions in California.

We offer the following principles that we believe are necessary to justify an extension of the cap and trade regulation:

## **1. Cap and trade must support improving air quality.**

Oil refineries and other industrial facilities in the cap and trade program are not only the largest sources of GHG emissions in the state, they are the largest stationary sources of smog-forming and toxic pollution, and they are commonly located in or near low-income communities of color disproportionately burdened by air pollution. These facilities should not be permitted to increase their GHG emissions via allowance trading and offsets, while also emitting excessive air pollution due to outdated pollution control equipment. Now is the time to strengthen our commitment to clean air, not back away from it. A cap and trade reauthorization should also be paired with measures to reduce sources of toxic diesel pollution, including indirect and mobile sources. We believe a cap and trade program can provide compliance flexibility, while supporting, not undermining, our efforts to achieve both climate and air quality goals.

**2. Low-value offsets should be limited or eliminated.**

The heavy reliance on offsets in the cap and trade program must be reexamined in light of AB 197's requirement to prioritize direct emission reductions and the fact that the current design may result in the majority of emission reductions achieved from cap and trade to come from offsets, primarily from sources outside California. Assuring that offset reductions are "real" (e.g., additional and permanent) is inherently difficult. The majority of offset projects are located in distant jurisdictions, such as Arkansas and Michigan, which compounds verification challenges. Even if offset reductions are real, they do not produce the same co-benefits, including local air pollution reductions, jobs and revenue, and should not be afforded the same value as direct emission reductions or allowances from sources under the cap.

**3. Price on carbon should not be artificially suppressed.**

A significant public benefit of the cap and trade program is setting an economy-wide price on carbon and harnessing the market to expedite California's transition to cleaner energy sources. We understand the value of managing carbon prices carefully, through a price collar or other means, to ensure a well-functioning market and avoid price spikes. However, carbon prices should not be artificially suppressed through a price cap that is much lower than the cost of direct emission reductions, excessive allocation of free allowances, or reliance on offsets when they don't serve a legitimate cost-containment purpose. To the extent free allocation of allowances is maintained post-2020, it should be limited to facilities with demonstrated leakage risk, and only to the extent necessary to prevent leakage. Highly profitable industries with little risk of leakage should not be given the windfall of excessive free allowances. In addition, all GHG reduction measures to meet the 2030 target, including cap and trade, must consider the social costs of GHG emissions, as required by AB 197.

**4. Authority of ARB and air districts must be preserved.**

A cap and trade reauthorization should reaffirm that cap and trade is part of a mix of measures that achieve both GHG emission reductions and important co-benefits. Further, our climate change program is part of a broader suite of environmental policies, which collectively protect public health and serve as a pillar of innovation and economic growth in California. Cap and trade should not be viewed as the exclusive GHG reduction regulation for any sector, particular those that have shown the least progress to date. Proposals to undo the balance struck by AB 32, SB 32, and AB 197, or to directly preempt the existing authority of ARB and local air districts to regulate emissions, should be rejected.

We stand ready to work with you to develop a balanced cap and trade reauthorization package that affirms our climate leadership at home and abroad, while protecting our environment and improving health and prosperity for ALL Californians. We would like to meet with you at your earliest convenience to discuss our cap and trade principles.

Sincerely,

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