Southern California Leadership Council

August 4, 2010

Ms. Mary Nichols, Chair
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Implementation of California's AB 32 Global Warming Legislation

Dear Chairwoman Nichols:

Thank you for your invitation for the Southern California Leadership Council's task group to provide suggestions on "alternative ways to implement the requirements of AB 32, California's mandate to roll back our emissions of greenhouse gases to 1990 levels by 2020, in light of both the current economic climate and the Governor's directive to be creative in using mechanisms rather than traditional regulations to achieve the target."

Our members are deeply concerned that AB 32 will have a significant and adverse economic impact at a time in which California's already challenged economy is dramatically weakened by the persistent and deep recession.

It is critical that mechanisms to provide both certainty and moderation of economic impacts of AB 32 be made so that California can continue to demonstrate a viable approach and are implemented in a way that contributes to job growth and serves as a model for the nation.

We make the following suggestions for your consideration and would be happy to work with you and your staff to come up with a detailed work plan to implement them.

Renewable Energy and Low Carbon Fuel Standards – Southern California must have competitive energy and transportation fuels.

The Renewable Energy Standard and Low Carbon Fuel Standard rules present very large cost impacts for California. SCLC recommends that CARB consider ways to moderate those impacts through timely reviews and mid-course corrections.

We suggest CARB review the implementation of the RES rule within one year of adoption and annually thereafter to determine if

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adjustments to the implementation schedule need to be made to moderate the cost impacts of the rules.

SCLC also suggests CARB review the LCFS for diesel and make its implementation subject to the development of specific technology that assures that adequate supplies of compliant diesel will be available at a reasonable cost in a timeframe that will allow compliance in combination with other clean transportation technology solutions.

Cap and Trade Program – Southern California's Growth Industries must have offset support.

The cap and trade rule also presents a very large cost impact, particularly if California moves ahead of a national program.

SCLC suggests CARB adopt a price ceiling at which allowances would be sold by the state and which either issues the necessary allowances directly or "funds" the required allowances through offsets from outside the cap and trade program to avoid adding additional cost burden to the cap and trade participants. The money gained from sale of additional allowances should be used to pay for the offsets needed to provide the necessary reductions to maintain the integrity of the cap.

It is critical that adequate supplies of offsets be available sooner rather than later at prices below the price ceiling to assure that there is a compliance path that can be met at a reasonable cost. SCLC is concerned that, while CARB is supportive of the role of offsets, the amount and price of the offsets that will be actionable are likely to be very expensive and limited in quantity at best or illusory at worst.

One way to stimulate a market would be to provide allowances from the state to load serving entities (both electric and natural gas) regulated by the CPUC or public boards and then require the allowances be offered at auction. Auction revenues should then flow back to the load serving entities whose governing commissions and boards would require the revenues be returned to customers and/or used in ways that further the state's greenhouse reduction goals.

California Job Engines – Southern California must continue its leadership in manufacturing.

So-called "trade exposed" industries should be afforded special attention and competitive protection against the additional costs of AB 32. These businesses are very sensitive to changes in energy (particularly electricity and transportation) prices and/or compete in markets where reducing greenhouse gas is not a consideration and for which their competitors do not bear the additional cost of such reductions.

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We are particularly concerned about the importance and continued competitiveness of California's manufacturing, wholesale trade and logistics industries which are closely interrelated and provide millions of well paying jobs for our people and billions in tax revenues for state and local government.

Over the past 18 months we have lost two jobs in these sectors to other states for every job we have created or attracted. Wholesale trade and logistics had been two of the state's largest job growth sectors over the past ten years. Manufacturing is dependent on and a critical magnet for wholesale trade and logistics firms.

We are struck by the continuing importance of these industries in growing a greener, sustainable 21st century economy for California. Some 63% of our scientists and engineers are employed in the manufacturing sector, which is critical to the attraction and retention of the research and development capabilities to create the clean technology, and process breakthroughs needed to retain our global economic and environmental leadership. And competitive wholesale trade and logistics services are critical support factors for the manufacturing sector to get subcomponents "just in time" to their assembly plants and final products to market.

California's manufacturers are some of the cleanest and most energy efficient in the world. Our ever more demanding air quality regulations have mandated best available technology applications and processes to clean our air and improve the health of our communities. We need to continue to incent this progress while we retain and grow these industries.

To lose these businesses and jobs to other states or countries where greenhouse gas regulations are more relaxed or non-existent will be counter- productive to our global warming reduction aspirations. Adding the transportation costs and resulting emissions to import, rather than produce, these products here would move California in the wrong economic and environmental direction.

SCLC suggests that CARB provide free allowances to trade exposed entities like manufacturers that are subject to the cap and trade rule and allow those entities to meet their compliance obligations through provision of valid offsets.

As companion measures for California to retain and attract clean, green businesses and jobs, and to incent continued improvements in energy and water efficiency and overall air quality and greenhouse gas reductions, combine the use of targeted R&D tax credits, the newly authorized sales tax exemption for purchase of manufacturing equipment, the reinstitution of California's former manufacturer's investment tax credit and CEQA waivers similar to those in SB 375 for advanced transportation, renewable energy and other clean technology, energy and water saving projects. In other words, turn AB 32 into a focused economic development initiative to re-grow California's economy as the global center of green manufacturing and technology.

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Beating the Competition – The Panama Canal Expansion – Southern California's Trade Corridors must beat the Panama Canal to grow its economy and jobs.

Our final recommendation is to embark on a "game changing" strategic initiative to create an absolute win-win between the green ambitions of AB 32 and the stimulation of an economic growth engine which will propel California's global leadership forward.

SCLC began its work in 2005 by presenting Governor Schwarzenegger with the case for a California Green Freight Initiative. Now, as we assess the potential impact of the Panama Canal's fast-approaching doubling of capacity in 2014, we see that California is at risk of losing not only its momentum and leadership in the global supply chain, but also many of its hundreds of thousands of trade-related jobs. The Leadership Council therefore believes that this is a critical moment to adopt a statewide strategy to meet this threat to California's future.

We believe that the Governor should seize this challenge by joining with business, labor and environmental community interests to announce a "Beat the Canal" campaign. This strategic initiative would unite a broad set of stakeholders behind the goals of creating more California jobs, continuing to reduce emissions through modernization, increasing the efficiency of our ports, and completing California's green trade corridors.

With this initiative we have a unique opportunity to set an unbeatable standard as a global gateway, with a world-class cargo velocity, absolute reliability of service, lower pollution per container than any other route, and cost certainty for the many businesses that depend on California's market leadership.

We look forward to working together on these important recommendations.

Sincerely,

Gray Davis
2010 Co-Chair

Pete Wilson
36th Governor of California

George Deukmejian
35th Governor of California

Greg McWilliams
2010 Co-Chair

Attachment

cc: Governor Arnold Schwarzenegger
Susan Kennedy, Chief of Staff

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