

# CONGRESSIONAL TESTIMONY

May 16, 2013

## Informational and Oversight Hearing of the California Senate Select Committee on Climate Change and AB 32 Implementation

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Prepared for the California State Senate Select  
Committee on Climate Change and AB 32  
Implementation

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on Climate Change and AB 32 Implementation

Testimony of Dallas Burtraw \*  
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Resources for the Future  
May 16, 2013

My name is Dallas Burtraw and I am the Darius Gaskins Senior Fellow at Resources for the Future (RFF). RFF is a 61-year-old independent, non-advocacy research institution in Washington, DC. RFF does not take positions on issues; the opinions I express today are my own.

I want to speak to you about California's interactions in the development of climate policy across the nation and internationally. I want to make four main points:

- **California is not alone. It is joined by many other jurisdictions in reducing climate pollution.**
- **But California is the leader in designing climate policy.**
- **California's leadership is accelerating the erosion of climate gridlock at the international level.**
- **The value of leadership accrues to Californians, through innovation, economic growth, and environmental quality.**

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Last week we brought a delegation of 12 academics and regulators from Sweden to San Francisco for a workshop involving about 100 people overall, titled *What is the Value of Being First: A Comparison of the California and Swedish Experiences*. Four themes emerged in the workshop:

1. California and Sweden view themselves and are recognized as leaders in environmental policy within their respective communities.
2. Both jurisdictions recognize that multiple policy instruments had an essential role in their environmental success. The efforts to achieve environmental improvement required persistent efforts, but employed flexible regulations that were infused with incentives when possible, including the use of prices to improve efficiency and reduce costs.

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3. Both jurisdictions recognize a crucial interaction of air pollution and climate policy. Addressing each requires combined policy development, which is important for business because it presents a more predictable investment in climate. It is also important for disadvantaged communities because, perversely, those communities that are most vulnerable to air pollution also tend to be most vulnerable to a changing climate.
4. Success in both jurisdictions built on an essential role for research and development.

Although these jurisdictions were first in many ways, they need to know they are not alone. In fact, there are very many efforts across the nation and globally to reduce climate pollution.

I would like to provide an update on one program in the nine northeast states that are participating as part of the Regional Greenhouse Gas Initiative (RGGI). An emissions cap was introduced in the power sector in RGGI and trading began in 2009. As emissions declined, they fell below the number of allowances allowed under the cap. However, the price of allowances did not fall to zero because RGGI instituted a price floor in its auction. Virtually all of the emissions allowances in RGGI are auctioned. By establishing a minimum price in the auction, bids below that price are not accepted, so the number of allowances issued will be reduced if the price is at the floor. The price floor feature is a model that was copied in the national Waxman–Markey proposal (H.R. 2454) and in the California trading program. As a consequence of the price floor in RGGI, the auction has collected over \$1 billion since 2009 that has been invested in energy efficiency and other programs. This investment in the first three years, between 2009 and 2011, is estimated to have produced \$1.6 billion in net present value economic benefits for the ten-state region, equaling nearly \$33 per capita, according to a report published last year by the Analysis Group.

In 2012, RGGI began a program review that was recently finalized in an updated memorandum of understanding (MOU). The nine states agreed to lower their emissions cap by 45 percent, from 165 to 91 million tons. The cap will decline 2.5 percent annually from 2015 through 2020. The adjusted cap accounts for allowances held in private accounts that were banked from earlier years, and it respects the investment value of those early actions. Prices are expected to range from \$4 to \$10 from 2013 to 2020, according to modeling conducted by ICF International.

The revised MOU also makes several design changes in the program:

- It instituted interim compliance measures within each compliance period, borrowing a feature from the California program.
- It instituted a cost containment reserve, with an architecture that is similar to the California program. The reserve would provide a pre-determined amount of allowances

into the auction at a trigger price. For 2014, the maximum amount is 5 million metric tons and for 2015 to 2020 the maximum amount is 10 million tons.

- It adopts an offset protocol, specifically for forestry, that is taken directly from the California program.

In addition, the MOU commits to identify tools to track and address emissions leakage and again they are studying the California approaches. RGGI expects that these program changes will increase gross state product by approximately \$8.2 billion, real personal income by approximately \$6.8 billion, and add approximately 124,800 job-years due to the cumulative effects of the program between 2013 and 2020. RGGI also committed to an ongoing program review, with a comprehensive review by 2016 to look past 2020.

Many other jurisdictions have initiated efforts to reduce greenhouse gas emissions and many have introduced a price on carbon. The Province of Quebec is doing so with a program architecture that looks very much like California's and, of course, it will be linking with California. British Columbia introduced a tax on carbon emissions from transportation fuels, natural gas, and coal of \$10 per metric ton in 2008, increasing at \$5 per year until it reached \$30 per ton in 2012. Revenue from that tax is recycled into the economy through reduced income taxes for corporations and small business, along with dividends for low-income households.

Other nations have also introduced a price on carbon. Australia has a fixed price of AUD\$23, which will transition into a variable price within a cap-and-trade program. New Zealand also has a program. And the largest program in the world is the European Union's Emissions Trading System.

Other nations have made serious commitments to introduce a price. In 2012, Mexico enacted legislation creating a commission and authorizing the ministry of the environment to introduce a carbon market at a future date. South Korea has also enacted legislation to introduce a carbon market. And most interesting is the effort in China, where addressing carbon emissions is likely to be integrated with efforts to improve air quality. Seven Chinese jurisdictions will initiate pilot programs in the next two years, with the aspiration of introducing an economy-wide carbon price in 2015. Chinese regulators in Guangdong hope to engage in exchanges with California as they develop their regulations, as reflected in a recent MOU signed in April 2013 between Guangdong and California governments.

While there are many efforts across the country and the globe to reduce carbon emissions, California is the leader in designing climate policy. Regulators across the country and across the world are adopting carbon pricing designs created by California policymakers. **California's leadership is accelerating the erosion of climate gridlock at the international level.**

California's continued leadership is critical to US domestic action against climate change. The vehicle for climate policy now in the United States is the Clean Air Act. Although actions under the Clean Air Act will appear incremental, the act is like a freight train. It is slow, but hard to stop. California's influence here continues to be enormous.

- The roots of the national mobile source standards trace back directly to the standards developed first in California.
- The Environmental Protection Agency's performance standards for new power plants are built on the template of California's SB 1368.
- Going forward, the most important regulations under the Clean Air Act are likely to be those introducing performance standards for existing stationary sources, beginning with fossil-fired power plants. It is hard to know where this will lead, but Section 111d of the act under which they will be developed gives deference to the states in the development of implementation plans. California's actions will be an important model for other states.

In conclusion, the value of being first accrues to Californians, through innovation, economic growth, and environmental quality. The value also accrues globally, which is essential because global efforts are necessary to address climate change.