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In 2006, the California Legislature enacted the Landmark Global Warming Solutions Act (AB 32), which authorized–but did not compel–the California Air Resources Board to adopt a cap-and-trade program as part of a comprehensive strategy to reduce state greenhouse gas emissions. A year ago, CARB adopted its AB 32 "Scoping Plan," in which it commits to cap-and-trade as an integral part of its GHG mitigation strategy; that cap-and-trade program will cover fully 85% of California's largest GHG emission sources.

This past week, an advisory body appointed by senior California environmental policymakers to advise CARB on the parameters of its cap-and-trade program released its report and recommendations. The Economic and Allocation Advisory Committee (EAAC) focused on two key features of California's proposed cap-and-trade program: how GHG "allowances" (i.e., permits) should be distributed and, if they are auctioned off, how the monetary proceeds of such an auction should be expended? (Full disclosure statement: this author is a member and Vice Chair of EAAC.)

The EAAC report, entitled, "Allocating Emissions Allowances Under California's Cap-and-Trade Program," [] has several core recommendations:

- CARB should use an auction system as the primary method for distributing GHG allowances, rather than via free allocation.
- Approximately 25% of the substantial revenues expected to be generated by such an auction program should be devoted to fund a variety of public programs designed to both reduce California GHG emissions and help the state adapt to the unavoidable consequences of climate change.
- Nearly 75% of auction revenues should be returned to California households, through

either direct financial transfers (dividends) or tax decreases. This recommendation stems in significant part from EAAC's view that California's air quality is a public resource, and that the public therefore deserves to be compensated by those who compromise that resource.

- CARB should avoid creating disproportionate, adverse economic impacts to low-income households, who spend proportionately more of their income on energy costs that are likely to rise as a result of California's GHG reduction efforts. Targeting some portion of anticipated auction proceeds to low-income groups is one way to accomplish that result, EAAC concludes.

EAAC's recommendations now go to CARB, which is expected to formally adopt a cap-and-trade program for California this Fall. CARB's unprecedented cap-and-trade rulemaking proceeding promises to be a complex and controversial one.