

From: Fred Keeley
Sent: Tuesday, August 04, 2009 2:20 PM
To: COTCE COMMISSIONERS
Cc: COTCE STAFF

Subject: RE: Tax Packages

Curt,

Thank you.

The proposal is stated in its entirety in the plan that you reference. Initially, as you know, I was discussing the notion of a carbon tax on transportation fuels. As the discussion, both at the commission meetings and in general, moved along, I was convinced by Severin Borenstein (who testified before the commission on this notion, Joe Bankman at Stanford, Dan Simmons at UC, and John Boesel at CalSTART that the pollution tax was the preferred structure for such a tax. As you may remember, the initial notion was to tax carbon-based fuels at the refinery level at a price that approximated the equivalent of \$20 per ton of carbon dioxide. This would have included gasoline, diesel fuel and jet fuel. The community of tax and policy experts who have opined to the commission on this topic seem to believe that a more effective and better constructed approach would be that which was included in the plan submitted to the commission on the Saturday prior to our last meeting.

This is a bit like the debate at the commission between whether to lower the existing Sales and Use Tax rate and expand the application to services (or some set of services), vs. the adoption of the BNRT. Both have some similar features (taxing consumption, broadening the base, lower rate, including services, etc.), but also have features that are unique. Both an expanded and reduced-rate SUT and the proposed BNRT have the basic goal of matching a consumption tax to the modern California economy. Similarly, the pollution tax is intended to tax the most heavily used carbon-based fuel in a manner that matches California's modern public policy (AB 32) and the stated goals therein of reducing the emission of greenhouse gases.

Thank you, again, for your email.

Fred Keeley