Local Government Sustainable Energy Coalition

To: Kevin Kennedy, California Air Resources Board
Claudia Orlando, California Air Resources Board

From: Local Government Sustainable Energy Coalition

Date: June 12, 2009

Subject: **LGSEC Comments to CARB on Using Set-Asides in a Cap and Trade Program**

The Local Government Sustainable Energy Coalition[1] (LGSEC) is pleased to provide the following comments to the California Air Resources Board (CARB), as requested during its May 18, 2009 workshop, on the use of allowance set-asides and related mechanisms in California's greenhouse gas (GHG) cap and trade program.

LGSEC recognizes that the cap and trade development process will occur over the course of this year and through 2010. Thus, we provide an overarching recommendation that links program design issues with a key feature of CARB's Scoping Plan, and specific comments on the use of set-asides.

I. Overarching Recommendation on the Design of a Cap and Trade Program

As recognized in CARB's Scoping Plan (Section II.B), local governments are essential partners to achieving California's GHG reduction targets. The Scoping Plan singles-out local governments for their leadership in developing programs and policies that yield significant energy savings and emissions reductions. These accomplishments are the result of local government ordinances, permitting rules, land use provisions, and community-based clean energy and energy efficiency initiatives, among other activities.

Furthermore, the Scoping Plan also acknowledged that many local governments throughout the State have pledged to reduce their GHG emissions and created Climate Action Plans to turn these objectives into attainable savings goals. The initiatives by local governments align with goals of CARB and AB32.

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[1] The Local Government Sustainable Energy Coalition includes: the Association of Bay Area Governments, the Association of Monterey Bay Area Governments, the City of Berkeley, the City of Huntington Beach, the City of Irvine, the City of Pleasanton, the City and County of San Francisco, the City of Santa Monica, the County of Los Angeles, the County of Marin, the County of Ventura, the Energy Coalition, the South Bay Cities Council of Governments. Each of these organizations may have different views on elements of these comments, which were approved by the LGSEC's Board.

Local governments have a tremendous and largely untapped capacity to help the state reach AB 32's GHG reduction goals. For example, while California has been on the cutting edge of energy efficiency, there is still a significant amount of additional reductions that local governments can obtain through new and ongoing investments in energy efficiency programs. Local governments can also invest in water efficiency and renewable energy resources, adopt local ordinances that encourage or require more energy efficient buildings, and educate constituents on effective conservation efforts. Furthermore, by designing a program that recognizes and rewards local government efforts to reduce GHG emissions, California will provide a very effective template that can be used in the federal program, as well as other state and regional programs.

Therefore, LGSEC urges CARB to commit to designing a cap and trade program that explicitly recognizes local government projects and programs, including clean energy and energy efficiency initiatives – and ultimately the GHG benefits that result from these activities. It is important that the cap and trade program complement the potential State-mandated regulation-based efforts to provide incentives and reward leadership. This means that when local governments design and implement GHG reduction activities, the cap and trade program should not be designed to preclude them from participating in the carbon market. LGSEC provides specific recommendations for how CARB should make this happen.

II. Specific Recommendation on Set-Asides and Related Mechanisms in a Cap and Trade Program

Local government energy saving and clean energy initiatives should be explicitly recognized under the AB32 cap and trade program through two approaches:

1. **A set-aside mechanism**, in which a pool of allowances is made available for local government energy saving and clean energy projects and programs. These include energy efficiency initiatives that complement State and utility funded and administered programs, building codes and standards that exceed State mandates (such as green building standards), non-utility scale renewable energy development, transportation related policies, and other sustainability-oriented plans that fall within the jurisdiction and control of local governments. The set-asides would then be either:
    a. Sold in the AB32 carbon market to help fund the initiatives; or
    b. Retired so local governments may retain the right to claim the GHG benefits.

- The set-aside mechanism would mitigate the "double-counting" problem commonly associated with GHG reduction activities that impact the electric grid.
- Local governments could create the energy saving and clean energy programs that would use set-asides through municipal bond initiatives, such as provided through AB 811.

- Set-asides would provide local governments with another negotiation tool for the benefit of smart growth developments, transportation initiatives, etc. that are likely to develop but as of yet have been defined.

2. **Allowance auction revenue** to local governments programs that reduce greenhouse gas emissions, including energy efficiency and renewable energy programs. The funds should be reserved for programs developed and administered by local governments.
    - The allowance auction fund would operate alongside the public goods charge program, which is focused on energy efficiency, for local governments to develop and administer their own programs that support regional and local interests..
    - This approach would mirror the federal climate change bill (Waxman – Markey, H.R. 2454), which proposes to allocate cap and trade allowances specifically for local governments. Approximately 1% of the cap and trade allowances would be directed to energy efficiency and renewable energy. Local governments will propose that the revenues from the allowance auction be directed to local governments using the Block Grant approach.

LGSEC urges CARB to incorporate both approaches into its cap and trade program because no single method could deliver the necessary incentives and benefits, and each of these approaches would encourage GHG reductions in unique and different circumstances.

For example, some local governments might develop energy efficiency and renewable energy programs in which the primary objective is to deliver energy savings in the most cost effective manner. In these circumstances, where there is also a significant GHG reduction benefit, local governments should be allowed to receive and sell set-asides (which would correspond in number to the size of the GHG reductions achieved through their energy efficiency/renewable energy program) to mitigate the total program cost. GHG reduction activities that would be good candidates for earning set-asides and then selling them into the carbon market would likely be large-scale initiatives that could deliver a sufficient volume of GHG reductions to make the effort to monitor and verify the project/program worthwhile (Approach 1.a). On the other hand, small-scale projects, or activities that do not yield immediate hard energy savings (like education and outreach), or other programs that might have excessive monitoring and verification costs would be good candidates for direct funding support through an allowance auction fund (Approach 2).

Additionally, during CARB's workshop, several participants proposed that instead of selling set-aside allowances, some entities may want to retire the allowances for the sake of voluntary renewable energy purchases. LGSEC's recommendation is consistent with this suggestion; it augments the approach that would apply to individuals and business that make green power purchases to reflect the reality that many local governments have obligations that call for GHG reductions. Where city and community action plans have stated GHG reduction targets, a key objective is to retain the right to claim the GHG benefit associated with a program, even if that benefit (in the form of an allowance) will not be sold. In this case it is imperative for CARB to create an allowance set-aside pool in which one allowance set-aside would be retired for each tonne CO_2e reduced through a local government initiative (Approach 1.b).

The following selected list of benefits show why local government projects and programs that reduce greenhouse gases are ideal candidates for recognition under a cap and trade program through a set-aside mechanism and an allowance auction revenue fund. The initiatives would:

- Deliver cost-effective, hard energy savings and commensurate GHG reductions (in the case of energy efficiency programs),
- Capture lost opportunities,
- Adhere to a high level of accountability, because they are implemented by public entities,
- Leverage opportunities for other programs, including demand response,
- Enhance the ability to identify and implement emerging technologies,
- Promote regional approaches to energy issues,
- Develop codes and standards,
- Identify green building initiatives.

Lastly, there will clearly be technical requirements associated with demonstrating that local government projects and programs produce high quality GHG reductions. CARB should not allow these potential challenges or methodological concerns to discount or eliminate the huge potential strategic benefit that can be realized from recognizing local government initiatives in the cap and trade program. Technical challenges have technical solutions. LGSEC will work with CARB and other stakeholders to develop methods to that show local government greenhouse gas reduction projects are real, additional, verifiable, and enforceable.

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Respectfully submitted,

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For THE LOCAL GOVERNMENT SUSTAINABLE ENERGY COALITION, et. al.

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