Local Government SUSTAINABLE ENERGY Coalition

P.O. Box 3629 · Oakland · California · 94609
510/459-0667 · www.lgsec.org

Comments of the Local Government Sustainable Energy Coalition to California Air Resources Board Regarding AB 32 Scoping Plan Update

August 5, 2013

The Local Government Sustainable Energy Coalition ("LGSEC")[1] is pleased to provide these comments to the California Air Resources Board ("ARB") as it updates the Assembly Bill 32 Scoping Plan. The LGSEC was encouraged at the July 30, 2013 workshop by the inclusion of local government representatives in the presentations, and by the ARB staff statements of support for local government involvement in AB 32 implementation work. The LGSEC's recommendations for the 2013 Scoping Plan Update include:

- The Scoping Plan Update must direct allowance values toward local government investments that advance AB 32 goals, as discussed in the 2008 report of the Economic and Allocation Advisory Committee.
- The ARB should provide guidance to local governments on a standard methodology for quantifying the local impacts of State policies.
- The Scoping Plan Update should include an emphasis on expansion of regional energy programs administered by local governments, which can more effectively include and impact all local governments' greenhouse gas reduction efforts. ARB support for local and regional governments should complement funding received from other sources.

[1] Across California, cities, counties, associations and councils of government, special districts, and non-profit organizations that support government entities are members of the LGSEC. Each of these organizations may have different views on elements of these comments, which was approved by the LGSEC's Board.

- The Scoping Plan Update should move California to a decentralized water supply system.
- The Scoping Plan Update should increase water conservation goals, and should include programs and funding to consider, establish, and value non-carbon benefits of strategies and measures in both energy efficiency and water conservation.
- Over time, measures that reduce emissions from waste and materials should be strengthened.
- The ARB should initiate research on how to account for upstream emissions associated with material sourcing and manufacturing.
- The Scoping Plan Update should look at policies that will lead to the deployment of more distributed generation.

I. THE ARB NEEDS TO CREATE A VALUE PROPOSITION FOR LOCAL GOVERNMENT PARTICIPATION IN AB-32 PROGRAMS

The Scoping Plan rightly recognizes the critical role of local governments in meeting AB 32 goals noting that: "Local governments are essential partners in achieving California's goals to reduce greenhouse gas emissions. They have broad influence and, in some cases, exclusive authority over activities that contribute to significant direct and indirect greenhouse gas emissions through their planning and permitting processes, local ordinances, outreach and education efforts, and municipal operations. Many of the proposed measures to reduce greenhouse gas emissions rely on local government actions." Furthermore, the Scoping plan notes the direction given by the ARB to local governments to set local reduction goals, implement the Local Operations Protocol and adopt local community emissions reduction goals that parallel state AB 32 objectives.

The LGSEC appreciates the recognition given to the importance of local governments in these programs, and the LGSEC believes strongly that there will be limited progress toward these objectives absent a clear value proposition to spur these entities to invest financial and political capital in reduction of greenhouse gases ("GHGs"). Local governments receive limited funding from a variety of sources (American Recovery and Reinvestment Act grants, California Public Utilities Commission programs, etc.) which typically include restrictions on their use that, inadvertently, place constraints on the scope and/or capacity of planned actions to meet their fullest impact on emissions reductions. Providing funds under AB 32 to local governments will allow existing programs to be leveraged and broadened to include many additional GHG reduction measures and strategies.

The Scoping Plan should be updated to support implementation of the recommendation of the Economic and Allocation Advisory Committee ("EAAC") that allowance value be directed toward public and private investments that advance AB 32 goals. The EAAC's March 2010 report "Allocating Emissions Allowances Under a California Cap-and-Trade Program" makes clear:

> "Allowance value can also be channeled to local and regional government entities including cities, counties, regional planning agencies, school districts and other special districts including water and sanitation districts. These entities are well positioned to advance locally focused efforts on land use plans that facilitate carbon sequestration and avoided emissions from forests and grasslands, public transit agency investments, supporting individual and local business investments in more efficient appliances and weatherization, improved structures, and distributed renewable energy projects. Local entities are a natural focus of efforts to direct investment to disadvantaged communities." (EAAC Report, pp 54-55.)

II. THE ARB SHOULD PROVIDE GUIDANCE TO LOCAL GOVERNMENTS ON METHDOLOGY FOR QUANTIFYING LOCAL IMPACTS OF STATE POLICIES

As local governments develop their climate action plans, many cite state legislation and programs. They do so either by assuming that these policies will be in place when establishing their projected emissions under business-as-usual conditions or as discrete measures aligned to corresponding GHG reductions which foster and advance their GHG reduction targets. In either case, local governments attempt to quantify the local GHG reduction impacts of state policies and programs. At the current time, they do so with differing methodologies and assumptions, yielding inconsistent valuations of local impacts. To facilitate consistency across local government climate action plans, the ARB should provide guidance on how to quantify local impacts of the state measures. Facilitating the accurate inclusion of state measures in local climate action plans will bolster local support and cooperation on state measures.

III. A NEW APPROACH TO IMPLEMENTATION OF ENERGY EFFICIENCY PROGRAMS BASED ON REGIONAL IMPLEMENTATION IS NECESSARY.

AB 32 goals require an expansion of energy efficiency programs sufficient to attain 40% to 70% improvements in the built infrastructure. Existing energy efficiency programs pay off well for Californians delivering an estimated $65 billion in benefits to consumers. However, existing programs come at a high cost and may experience declining return on investment in the form of market saturation and demand hardening. A new approach to deploying efficiency programs is needed to take the state to the next level in this effort.

The greatest opportunity to move forward in this area is in programs that integrate the energy, water, and wastewater cost savings for consumers and businesses in programs that fit the distinctive needs and priorities in each region of the state. The LGSEC recommends that the

Scoping Plan Update include an emphasis on expansion of regional collaboration among local government energy programs which can more effectively include and impact all local governments' greenhouse gas reduction efforts. Two such Regional Energy Networks ("RENs") have been funded by the California Public Utilities Commission ("CPUC") in Southern California and the San Francisco Bay Area.

Fostering a regional approach for local government energy programs will provide regional cohesion, efficiency, and cost effectiveness. Successful local programs may be expanded to neighboring jurisdictions. Administrative and overhead costs are reduced through operation of single programs across multiple jurisdictions. Jurisdictions with less or limited resources have access to programs they could not develop themselves. Groups of local jurisdictions would be motivated to work together to find regional solutions along with local solutions to GHG mitigation.

IV. MOBILIZE THE PRIVATE SECTOR TO ACHIEVE RAPID EXPANSION OF RETROFIT PROGRAMS.

Excellent examples exist where programs implemented by LGSEC members are unleashing the private sector to greatly expand energy efficiency and renewable energy programs in the commercial and residential sector. The Property Assessed Clean Energy ("PACE") program in Sonoma County, as one example, generated more than $60 million in investment in its first two years of operation. New programs now being tested guarantee renters and homeowners cost savings from energy upgrades by capturing the energy, water, and wastewater cost savings from these measures. These programs are most effective in the multifamily sector, one that has been very difficult to penetrate with conventional rebate systems. Other local government and REN programs are testing stratagems similar to PACE, which have the potential to drive both residential and small business market sectors. The ARB can leverage allowance

revenue dollars by providing the financing tools for local governments to implement these programs.

Financing comprehensive GHG mitigation related measures in a building versus financing only measures tied to utility incentives can more quickly grow the "green" financing marketplace.

V. THE SCOPING PLAN UPDATE SHOULD PRIORITIZE ACTION TO DECENTRALIZE WATER SUPPLY INFRASTRUCTURE IN CALIFORNIA

Embedded energy in water is largely a function of the transmission/conveyance distance that must be traversed to deliver water to customers. Moving future water supply development to emphasize local sources like groundwater, recycled water, and water efficiency can lead to reductions in GHG emissions caused by the water sector. These measures also build resilience into the state's water system and support efforts to adapt to the impacts of inevitable changes in climate. The Scoping Plan should encourage implementation of these measures.

VI. WATER CONSERVATION GOALS SHOULD BE INCREASED AND SHOULD CONSIDER NON-CARBON BENEFITS

The LGSEC supports strengthening water conservation goals, for example 50% by 2050 to mirror the current 20% reduction goal by 2020. Water utilities, unless decoupled, do not have incentives to conserve beyond legislated goals. Green codes and market initiatives should be leveraged to drive conservation measures. Water conservation and efficiency measures have multiple benefits, including upstream GHG reduction from energy saved to source, convey, treat, and transport water, as well as preserving water supplies for critical uses and the conservation of natural habitats that intersect with our water supplies. As climate change impacts exacerbate water shortages, conservation becomes increasingly critical as a climate change readiness measure. The State should keep non-carbon and climate change readiness benefits in the

conversation around and evaluation of water conservation measures. Additionally, drier years will increase the carbon intensity and cost of water as sources such as desalination are introduced. The GHG emissions estimate of future water use should include this increased carbon intensity. The State should explore quantification methodologies for future societal cost of water sourcing and treatment and the application of methodology similar to time dependent valuation in the energy sector.

VII. THE UPDATE SHOULD PROMOTE IDENTIFICATION AND VALUATION OF ENERGY EFFICIENCY CO-BENEFITS, AND SUPPORT EXPANSION OF EFFORTS LOCAL GOVERNMENT HAVE ALREADY LAUNCH IN THIS AREA

Local governments have already demonstrated the link between energy efficiency measures and their positive impact on residential indoor air quality, and are presently launching similar pilots to test the small commercial market. Further, local agencies and RENs look to apply, expand, and refine green labeling models to more clearly define and establish value propositions for energy, water, and waste-water conservation and efficiency. Support is needed in this area, to provide scientific peer-review, valuation, and translation of co-benefits in a format that promotes broad recognition and application by various public and private market participants.

VIII. THE UPDATE SHOULD STRENGTHEN AND EXPAND WASTE AND MATERIAL RELATED EMISSIONS REDUCTION MEASURES

The LGSEC encourages the ARB to strengthen and expand waste- and materials-related measures for implementation between 2020 and 2050. Examples of such measures include curbside composting in all municipalities, 95% diversion of construction and demolition waste without including alternative daily cover, and mandatory commercial composting in addition to recycling as legislated through AB 341.

IX. THE LGSEC SUPPORTS ARB'S EFFORTS TO QUANTIFY AND ADDRESS EMBODIED EMISSIONS OF MATERIALS

An important long-term consideration of which the ARB should be mindful is that solid waste represents inefficiencies throughout the materials management cycle. The landfill or other end-of-life GHG emissions represent only a small portion of the GHGs resulting from these inefficiencies. Quantifying and including embodied emissions caused by material sourcing and manufacturing is necessary to capture the full GHG benefits of recycling and responsible purchasing measures.

The ARB should have as a goal the inclusion of upstream or embodied emissions; this will prevent unintended conflicts with economic development. The existing omission of embodied/upstream emissions results in outsourcing of manufacturing to appear favorable from a GHG perspective. Inclusion of upstream emissions would allow GHG reduction policies to support local clean manufacturing over outsourced unregulated manufacturing. Initiating in the 2013 Scoping Plan Update work that will ultimately lead to the inclusion of embodied emissions, will eventually allow state and local governments to better align and advance their climate action and economic development goals.

Local governments have begun to explore quantification methodologies for their communities' consumption. The LGSEC recommends that the Scoping Plan Update acknowledge the importance of this body of research, and identify how the State will support local initiatives and partner with local governments and research institutions to improve the data set and quantification methodologies for embodied emissions. This research is important to the long-term goals of the Scoping Plan, particularly to actions that will need to occur after 2020.[2]

[2] In addition, local governments are poised to support the ARB in the examination and development of conversion technologies that meet the State's unique environmental criteria, and offer promise in substantive reduction (as opposed to diversion) of waste volume deposition in landfills.

X. INCREASING THE DEPLOYMENT OF DISTRIBUTED GENERATION MAY REQUIRE DIFFERENT POLICIES

The Scoping Plan Update should look at policies that will lead to the deployment of more distributed generation. The Workshop presentation listed several challenges for distributed generation. It did not discuss the form of the feed-in tariff for small renewable energy projects. The LGSEC recognizes that the California Public Utilities Commission has developed what it considers to be a feed-in tariff, in the form of the Renewable Auction Market Adjusting Tariff ("ReMAT"). We are not convinced that the ReMAT is sufficiently streamlined and easy to access to induce the level of participation local governments believe could be possible. Some municipal utilities in California have used a different form of feed-in tariff with great success, as have other states and countries. The LGSEC suggests that any feed-in tariff must do the following:

- Reflect actual costs of various system sizes/configurations via a range of feed-in tariff prices
- Require utilities to buy all the power produced that is not being used on-site
- Require utilities to interconnect at no charge
- Require building inspectors to provide streamlined service for all distributed generation projects

Net metering also is important to the success of distributed generation projects, particularly rooftop solar projects that local governments rely on as part of their climate action planning. Net metering should be maintained at full retail value or at 80% of retail value. Some parties are actively for advocating net metering programs that pay generation-only value. As transmission and distribution comprises the majority of utility rate structures, the solar industry would be decimated without full retail net metering. The LGSEC does not endorse virtual net metering; it is unnecessarily complicated and opaque.

The Scoping Plan Update also should encourage community solar projects, which allow tenants and lessees who do not have roof access for solar to purchase a part of and receive benefits from renewable energy investment, preferably local. Utilities should be required to provide on-bill credit mechanisms for participants in community solar projects.

The Scoping Plan Update should also recognize that permitting and inspections add significant cost and lengthen the solar installation process. The LGSEC supports efforts to streamline the permitting process such as the U.S. Department of Energy's Sunshot Challenge that encourages adoption of user-friendly protocols by local governments. The LGSEC also supports increased training for building inspectors and the goal of standardizing solar installations.

XI. CONCLUSION

Local governments continue to be innovators and leaders in reducing GHG emissions and developing and implementing programs that are helping California achieve its AB 32 goals. The Scoping Plan Update should explicitly recognize the important work of local governments, and direct allowance value to local governments so they can continue to build on this important work.

Respectfully submitted,

/s/

Jody S. London for the
LOCAL GOVERNMENT SUSTAINABLE ENERGY COALITION