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MEMORANDUM

TO: Local Government Sustainable Energy Coalition

FROM: Jody London

DATE: May 31, 2009

SUBJECT: Summary of Meeting with California Public Utilities Commission Staff on Energy Efficiency Set Asides Under Carbon Cap and Trade Programs

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This memo reports on the May 28 meeting between representatives of the Local Government Sustainable Energy Coalition ("LGSEC")[1] and staff of the California Public Utilities Commission ("CPUC").[2] The purpose of the meeting was to open a conversation about establishing recognition for local government initiatives that reduce greenhouse gas emissions under a cap and trade program. While it is difficult to summarize the reaction of such a large group, particularly because some members of the CPUC staff dominated the conversation, it is fair to say that the CPUC staff has questions about how a set aside would operate, as well as whether there might be other ways to recognize local government actions besides a set aside. They do, however, appear to agree at a macro level that there is a need for local governments to participate in climate change programs.

Issues

Julie Fitch, Director of the Energy Division, was much more focused than her staff on the practical aspects of how a set aside would work, particularly how to keep separate those activities performed with public goods charge monies and ensure that they are unique to local government. Fitch also asked what would be a reasonable size for any set aside. We did not get much opportunity to discuss these issues, as they were raised toward the end of the meeting.

The majority of the conversation focused on philosophical issues, and was mainly an exchange between two of the CPUC staff who work on climate issues, Mike McCormick, and Tim Rosenfeld, with Cal and me breaking in as needed. CPUC staff offered the following observations:

- If a program for local governments is funded by an allowance auction, there could be a problem in actually accessing funds because proceeds from an auction might go to the State's General Fund and never emerge.

[1] LGSEC representatives included Michael McCormick, consultant; Cal Broomhead from the City and County of San Francisco; and Tim Rosenfeld, who works with the towns in Marin County. In addition, Cal brought in by phone line Calla Ostrander, San Francisco's Climate Coordinator.

[2] CPUC staff included Julie Fitch, Energy Division Director; Pete Scala, Supervisor, Energy Division Climate Strategies Group; Adam Langton, Analyst, Climate Strategies; Kristin Ralff Douglas, Senior Analyst, Policy and Planning Division; Cathy Fogel, Supervisor, Energy Division, Energy Efficiency Strategic Planning; Melissa Semcer, Analyst, Climate Strategies; Johanna Sevier, Analyst, Energy Efficiency; Scott Murtishaw, Analyst, Climate Strategies; and Jean Lamming, Analyst, Energy Efficiency.

- One of the CPUC staff is very adamant that people should distinguish between allocated allowances and unallocated allowances for both energy efficiency and renewable energy, to capture the notion that some entities might want to retire any allowances they receive. The CPUC staff were surprised that both San Francisco and Marin would consider retiring the allowances and taking the "green" credit; they have only to date encountered entities that want to use the allowances to generate additional revenue. We tried to impress upon them that there are a number of reasons why local governments might want to use some allowances to generate revenue and retire other allowances. We also clarified that local governments would have to earn the allowances.
- The CPUC staff raised concerns about the transaction costs for verifying emission reductions from small projects. They suggested that local governments might instead prefer a mechanism that helps local governments, but comes in more of a block grant form. The example that was used was to fund the equivalent of a resource conservation manager, which I found encouraging, at least in terms of our goals in the energy efficiency proceeding.
- CPUC staff expressed concern about why local government would get the credits for actions that might be taken by private property owners.
- The two CPUC staff most active in the conversation also expressed the opinion that perhaps there should not be any allowances, because as AB 32 is implemented and standards become more stringent, local governments and individuals will have to take these actions anyhow. The increasing stringency of State regulations should be sufficient incentive to take action. This would also bring down the system cost, if there is not a need to pay incentives or otherwise fund a set aside.
- The CPUC staff emphasized that the Air Resources Board will want to be able to attribute emissions reductions to a local government.
- The CPUC energy efficiency staff asked if we have estimated the EM&V costs for participation in a set aside program. We suggested the CPUC look at the Energy Trust of Oregon, which has developed protocols for EM&V for these purposes.
- Another of the climate change staff, a newer employee, asked why the incentive should come from a set aside instead of from a utility-funded program. Someone else suggested we just sit down with the utilities and tell them we would like to design these programs, and the utilities will certainly participate. We explained that we've been trying to do that for seven years, with little result.

Next Steps

At this time, we recommend focusing our limited resources on CARB. Comments are due to CARB June 12 on this issue. Mike McCormick will be developing a draft in the next day or so that begins to address the concerns that we have heard in our conversations with CARB, at the May 18 CARB workshop, and with the CPUC. We will make the sure the CPUC staff receive the comments we file, and can determine at that time whether we want to have further conversations with them on this subject.