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March 8, 2013

Mary Nichols, Chairwoman
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Ana J. Matosantos, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

RE: Cap & Trade Auction Revenue Use – Investment Plan Considerations

Dear Chairwoman Nichols and Director Matosantos,

On behalf of the Silicon Valley Leadership Groups' 375 members, I am writing you to provide input on the development of the AB 32 cap and trade auction revenue Investment Plan. The Silicon Valley Leadership Group, founded in 1978 by David Packard of Hewlett-Packard, represents more than 375 of Silicon Valley's most respected educational institutions and high-tech, bio-tech, and clean-tech employers; our members collectively provide nearly one of every three private sector jobs in Silicon Valley. As a supporter of AB 32 since its inception, we are proud to offer our comments below.

General Principles

For both legal reasons and to ensure the success of AB 32, the Silicon Valley Leadership Group supports the following general principles to help guide the development of the Investment Plan.

1. **Nexus** – Monies generated by the cap and trade auction program should adhere to the legal precedent for use of regulatory fees established by *Sinclair Paint Co. v. State Board of Equalization* (1997), with a direct link to verifiable greenhouse gas (GHG) reduction;¹
2. **Leverage private investment** – Because cap and trade auction monies are limited and the amount will vary over time, it is important to leverage private capital resources and investment as much as possible to advance the state's goals;
3. **Support innovation and diffusion** – In meeting the GHG reduction goals, the state must think both short- and long-term, focusing on technology diffusion (short-term) while also addressing the need to bolster support for research and innovation (long-term);²
4. **Phasing investments**: We support using early program monies to advance deployment of clean and efficient energy and electric and alternative fuel infrastructure; along with the Transportation Coalition for Livable Communities, we believe that when fuels come under the cap in 2015, these monies should help fund mass transit and transit oriented development;

In developing the Investment Plan, the state should provide clear metrics for success (including performance and environmental objectives) in meeting the 2020 GHG reduction goal and milestones to track progress, while also providing a regular status report for public review.

¹ This can be done by decreasing the amount of GHGs generated by various human activities or by increasing GHG sequestration. Use of these monies for any other purposes risks exposing the program to legal challenges and undermining public support and the state's efforts to reduce its carbon footprint.

² While cap and trade will help encourage investment in innovative technologies and help scale solutions, it will not, in and of itself, help get technologies to market as quickly as is needed to meet the state's GHG reduction goals.

Areas of Investment

The Leadership Group has identified areas in each of the broad categories contained in the Governor's budget where investments can achieve significant GHG reductions and yield meaningful co-benefits such as job creation and improved public health. The areas include:

1. Clean and Efficient Energy and Next-generation Low-carbon Transportation

Large scale clean technology development and deployment will help reduce California's reliance on fossil fuels and significantly reduce the amount of GHGs the state produces. Further, deployment of these technologies will help create jobs across the state.

- a. Sustainable Development Bank ("Green Bank"): Such a bank would provide low interest loans, performance-based grants and/or loan guarantees to those that want to invest in clean energy, energy efficiency, or electric and alternative fuel infrastructure. The bank is important as adequate financing is one of the key obstacles to the widespread deployment of clean and efficient energy solutions. In effect, the Bank would help ease transition to a clean economy by making clean and efficient energy technologies more cost competitive with fossil fuels.

We believe the Bank should be structured as a public-private partnership and as such, could better leverage private capital (we believe at up to a 10:1 ratio) in a fashion that mitigates investment risk, catalyzes market activity and lowers borrowing costs. The Sustainable Development Bank will enable innovative, commercially viable clean-energy technologies in such areas as wind, solar, geothermal, advanced biomass, increased efficiency, and clean and efficient transportation infrastructure and deployment of next-generation electric vehicles —to be deployed at greater scale.

The Bank should support deployment in a technology neutral fashion, so that the state is not in the role of picking winners and losers. The Bank should take into account and coordinate with new programs that are currently being implemented such as Prop 39 and other ongoing state programs. Finally, we believe the state can create an effective Sustainable Development Bank using a relatively small amount of funding (approximately \$100 million) per year.

- b. Existing Programs with GHG Reduction Benefits: The state has existing programs with proven GHG reduction benefits. Investing in these programs would allow the state to quickly achieve near-term GHG reductions through existing channels by avoiding the time it takes to create entirely new programs. Existing vehicles that could benefit from new funding include such as PACE programs, distributed generation deployments, clean energy generation and energy efficiency upgrades at public facilities, clean and efficient transportation infrastructure, and deployment of next-generation electric vehicles. Examples include:
 - Commercial PACE programs
 - California Solar Initiative (set to expire by 2017)
 - Energy efficiency retrofit and rebate programs
 - Emerging Renewables Program / Self Generation Incentive Program
 - New Solar Homes Partnership
 - AB 118 Program
- c. New Programs with GHG Reduction Benefits: We agree with Clean Energy Working Group that the state should invest in new programs to help remove key barriers to clean and efficient technology deployment. These investments should be overseen by a single state agency and coordinated with existing programs. Gaps exist in the following areas:

- Implementation of home/business energy efficiency, energy management and demand response technologies through rebates;
 - Funding to accelerate and demonstrate integration of distributed generation and energy storage technologies with existing smart grid systems;
 - Market facilitation for emerging technologies to help bridge the “valley of death”;
 - Incentivize utilities and/or third parties to adopt and deploy smart grid-connected EVs;
 - Direct grants for state/local investment in distributed generation - i.e. schools;
 - Financing to encourage agricultural biogas production for the pipeline.
- d. Green Prize to Spur R&D to Help Reach 2050 Goal: Deployment of existing technology, even at scale, will not enable California to reach its goal of reducing GHG emissions to 80 percent below 1990 levels by 2050, according to the California Council on Science and Technology.³ The report states that achieving this goal will require “intensive and sustained investment in new technologies.” Thus, we believe the state should consider creating a “Green Prize” which would help spur innovation in groundbreaking technology in any of a number of areas such as large-scale, commercially viable carbon sequestration.⁴ The “Green Prize” should complement the already existing EPIC program, which supports R&D, but currently will not fund research on carbon reduction, at least in the upcoming program cycle. We believe the state could create an effective Green Prize using a relatively small amount of funding (approximately \$5 - 10 million) per year. Finally, we believe this effort would best be administered by a non-profit, working in close coordination with the state.

2. Natural Resources Management

Climate change is already leading to rising temperatures, increased rainfall variability, rising sea levels and other climatic changes such as more extreme weather events. It is critical for the state to begin addressing the impacts of current climate variability and future climate change by investing in natural resource measures that provide the co-benefits of GHG mitigation via sequestration while also helping the state prepare for a very different future.

We agree with a consortium of leading natural resources groups including the Nature Conservancy, the Pacific Forest Trust, etc., that some portion of the pollution fee dollars should support natural resources management activities that sequesters GHGs, whereby atmospheric carbon or methane is incorporated into plants, soils, and water. Highly productive sources of carbon sequestration include wetlands, forests and watersheds.

- a. Forest Conservation and Restoration: California forests and vegetation remove vast amounts of carbon dioxide from the atmosphere. Forest conservation and, especially reforestation and afforestation programs have the capacity to reduce GHG emissions and achieve multiple public and environmental benefits, including the protection of air and water quality, fish and wildlife habitat and recreation. Key programs that should be identified in the Investment Plan include:
- California Forest Improvement Program administered by CAL FIRE
 - Working Forest Conservation Easement programs including CAL FIRE’s Forest Legacy;
 - Program, the Wildlife Conservation Board’s (WCB) Forest Conservation Program;
 - The Sierra Nevada Conservancy, Tahoe Conservancy and State Coastal Conservancy.

³ <http://ccst.us/publications/2011/2011energy.pdf>

⁴ Prizes designed to facilitate technological breakthroughs have a proven track record. The Orteig Prize inspired Charles Lindbergh in 1927 to be the first to fly nonstop from New York to Paris. The \$10 million Ansari X Prize was awarded to Paul Allen’s team in 2004 for the creation of a privately financed spacecraft, and the contest generated more than \$100 million in private investment in spacecraft innovation. Both prizes launched new industries.

- b. Wetlands and Watershed Restoration: Wetlands and watershed restoration efforts in the Sacramento San Joaquin Delta, the San Francisco Bay and elsewhere provide opportunities to reduce methane and carbon dioxide emissions while also sequestering additional GHGs. These efforts can also help reduce land subsidence, protect areas from sea level rise, and enhance water quality. Existing State programs that could immediately supports these efforts include:
- The Inland Wetlands Conservation Program administered by the Wildlife Conservation Board;
 - The Delta Conservancy and State Coastal Conservancy;
 - The Watershed Program administered by the Department of Conservation.

3. Sustainable Infrastructure Development

Our land use patterns drive heavy greenhouse gas emissions from the transportation sector. Between 1975 and 2004, the number of miles driven by Californians increased more than 3% per year. In contrast, California's population growth was less than 2% per year during the same period.⁵ Doubling neighborhood density can reduce both vehicle trips and the number of miles driven by about 5%.⁶

SB 375 required regional planning agencies to create a plan for how transportation and land use could reduce greenhouse gas emissions. The Leadership Group supported the legislation and is working to implement the bill at regional and local levels. The major challenge in the process is obtaining local buy-in. Local cities and counties push back on issues like tying transportation funds to future housing production or planning for more homes. Communities cite challenges such as reduced money for affordable housing and inadequate sewer and school infrastructure as impediments to building compact infill.

Therefore, we agree with the Transportation Coalition for Livable Communities that auction revenues derived from vehicle fuels should be used to fund transportation system needs in a way that achieves AB 32 objectives and builds on the framework of SB 375. Based on research, the proposed Livable Community Infrastructure Program would leverage a cost effective investment portfolio across transportation efficiency measures, land use incentives, and improved transportation options to yield the greatest GHG reductions associated with the transportation sector.

We support an array of transportation efficiency and land use incentives and improvements put forward by the Coalition, including:

a. Transportation efficiency measures:

- Network and demand management (e.g. transit/bike priority signalization; trip reduction programs; roundabouts/roadway modifications; congestion pricing);
- Transit service, maintenance and operating costs (e.g. Bus Rapid Transit);
- Increase funding for bike networks and pedestrian amenities, with an emphasis on bicycle and pedestrian connections to transit;
- Multi-modal network connectivity to reduce travel distances and improve access to parks, schools, jobs, housing, and markets for rural and urban communities (e.g. neighborhood scale planning);
- Augment funding for alternative fuel programs that promote the mass adoption of new technologies;

⁵ State of California, Department of Finance, *Race/Ethnic Population with Age and Sex Detail, 1970-2004*. Sacramento, CA, December 1998 and United States Government, Federal Highway Authority, *Highway Statistics 1975-2004*, Washington D.C., 2005.

⁶ Ewing R. and R. Cervero, "Travel and the Built Environment," *Transportation Research Record*, Vol. 1780, pp. 87-114, 2001.

b. Land use incentives and improved transportation options:

- Funding to develop and implement land use modifications to support regional plans (e.g. updating zoning codes, parking standards, Level of Service policies);
- Other community infrastructure (e.g. water, sewer, greening) to support Transit Oriented Development, affordable housing, urban infill and small walkable communities in rural neighborhoods;
- Enact planning and zoning changes in Priority Development Areas.⁷
- Reward jurisdictions with flexible infrastructure funds when it approves compact homes and/or workplaces. This could be done through a program like the One Bay Area Grant or Transportation for Livable Communities;
- Plan and build compact, affordable homes and dense offices near transit paired with car-share memberships and transit passes.

We believe that investing in the areas detailed above, guided by the principles we also outline, will help the state achieve measureable GHG reductions in both the near- and long-term, realize meaningful co-benefits, and help maintain public support for California's leadership in addressing climate change and clean air.

Our members appreciate the opportunity to submit comments on this important matter and look forward to working with you as the state continues to develop both the Investment Plan and the Expenditure Plan.

If you have any questions, please do not hesitate to contact me.

Sincerely,



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⁷ Priority Development Areas are local government nominated areas slated to take on more intense future growth.