

March 31, 2009

Client-Matter: 24963-036

VIA EMAIL

CARB Staff and Board Members
California Air Resources Board
1001 "I" Street
P.O. Box 2815
Sacramento, CA 95812
Email: ccworkshops@arb.ca.gov

**Re: Comments of the County of Los Angeles on the Awarding of Credit for
Voluntary Early Actions**

Dear CARB Staff:

The County of Los Angeles (the "County") appreciates the opportunity to provide these comments to the California Air Resources Board ("CARB") on the awarding of credit to parties who have taken "early actions" to reduce greenhouse gas ("GHG") emissions.

The County of Los Angeles

The County is the most populous county in the United States with over 10 million inhabitants. The County provides a range of services from law enforcement to health care, and operates a variety of facilities, including public libraries, museums and jails. In providing these services and maintaining these operations, the County is also a significant energy consumer. It is one of the largest single commercial customers of Southern California Edison Company and the Los Angeles Department of Water & Power, and a significant Southern California Gas Company customer as well.

The Role of Local Governments

As the current Chair of the Local Government Sustainable Energy Coalition, the County works with other local governments to promote sustainable energy policies. The County believes that local governments are uniquely able to leverage the low-cost reductions that are available through improving energy efficiency. Leveraging local governments in California's pursuit of AB 32's goals makes all the more sense given the recent increased scrutiny of the total cost of AB 32 implementation by the Legislative Analyst's Office.

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Credit for Early Actions

The County participated in the CARB workshop on March 10, 2009 on the various aspects of a potential system to award credit for early actions. At that event, the workshop organizers heard about the positive role that local governments can play in reducing GHG emissions. Early action by local governments will not only pay dividends in reducing GHG emissions, but may also contribute to economic activity during this time of economic distress.

At the workshop, staff asked, “How far back should we go to establish eligibility for early action credits (e.g., 2007-2011)?” The County has been taking action to reduce GHG emissions since the mid-1990s, and these actions should be appropriately credited.

At the workshop, staff also asked, “What options for rewarding voluntary early actions outside of capped sources should be considered?” CARB should award credit where programs have resulted in the reduction or avoidance of GHG emissions. For instance, for many years the County has been replacing lighting, heating, ventilating, and air conditioning equipment in its 60,000,000 square feet of building stock with an eye toward reducing GHG emissions.

Staff inquired, “How should credits provided for early actions affect the level of the cap at the start of the program?” Credits, whether offsets or set asides, should replace allowances that would have normally gone to capped entities. This will preserve the environmental integrity of the cap.

Staff also questioned whether firms that voluntarily reported emissions to the California Climate Action Registry should receive credit for actions they took to reduce emissions. The County believes that most actions registered with the California Climate Action Registry should be awarded appropriate credit. Registry data should be gathered at a resolution that will allow CARB to determine which specific actions resulted in reductions.

One loud and clear message from the workshop was that it will be easier for CARB to award credit for—and entities to plan for—reductions once an appropriate protocol is put in place to quantify these emission reductions. This statement is no less true for local governments. To that end, the County strongly urges CARB to move quickly to approve a protocol which all local agencies can use to quantify and verify emission reductions.

Ultimately, local governments can continue to play a key role in the “early” and later GHG reduction programs taking shape in California and regionally if participation is correctly structured. The opportunities for GHG reductions in the energy, water, transportation, and landfill sectors are very attractive. Because local governments often possess legal control over related infrastructure, they are necessary parties to involve if fundamental changes are desired.

To date, local government sustainability programs have produced significant energy and resource benefits.¹ The initiatives have involved municipal facilities, offices, landfills, and private residences.

Local governments have encountered obstacles when developing sustainability programs. Attaining all further available GHG reductions will involve addressing some of these challenges. For example, local governments have administered and implemented these projects using a combination of resources including utility programs, funded by ratepayers through a public goods charge. However, because the utility programs have been underfunded and overly restrictive of the types of projects that can be undertaken by local governments, the programs have not achieved their ultimate potential. Awarding credit for early actions will provide additional incentives necessary for the expansion of these programs.

In addition, local government programs have generally thus far only focused on the programs that are easiest to fund or implement, not necessarily the programs that can provide the greatest benefit to the environment. With changes to the funding structure that relax restrictions and boost aid, local programs can be geared to maximize environmental benefits and GHG reductions. The ability to access funds through a set aside mechanism could provide the supplemental revenue stream necessary to pursue the many remaining reduction opportunities.

In the context of cap-and-trade, a related potential obstacle involves the potential issue of double-counting emission reductions. Emission reductions resulting from energy efficiency measures have the possibility of being double-counted because they result from saving or displacing grid-delivered electricity (so-called “indirect reductions”), which may appear to be a reduction achieved by the generator of that electricity. Unless the system is structured correctly, an entity outside of the cap (such as the operator of an electric train that has improved efficiency) and an entity under the cap (such as a power plant operator) could both claim reductions from more efficient operations. Thus, the challenge becomes how to separate downstream indirect emitters properly from upstream, direct emitters. *Importantly, this challenge exists regardless of whether the ultimate credit is given in return for early actions or during a future capped period.* Nevertheless, there should be a system for awarding credit directly to indirect emitters.

¹ For example, on November 18, 2008, the County has just updated its set of “green building” rules, which are some of the most progressive in the nation. See http://planning.lacounty.gov/assets/upl/data/ord_green-building-final-ordinances.pdf.

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Set Asides in the Cap-and-Trade System

The best solution to the double-counting issue is through the creation of a system of set aside allowances. This system would stimulate consumers of power to search out and correct inefficiencies in power use (which constitute the lowest cost GHG reductions). In contrast, a system that only rewards direct emitters for actions taken by others extinguishes the downstream incentives to seek ever-more efficient uses of energy.

There is a link between this set aside system and awarding credit for early actions. There is no reason why set asides cannot be calibrated to award credit to actions taken prior to the onset of the first capped period. As the County envisions the program, creating set asides will preserve environmental integrity and resolve the challenges involving double-counting GHG reductions associated with energy efficiency and renewable energy projects.

Next Steps

The County looks forward to continuing to collaborate with CARB staff on this and other issues.

Sincerely,

/s/

Randall W. Keen