June 12, 2009

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California Air Resources Board
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Via email: ccworkshops@arb.ca.gov

SAN FRANCISCO CARBON COLLABORATIVE POSITION ON THE USE OF ALLOWANCE SET ASIDES TO PROMOTE VOLUNTARY INVESTMENTS IN RENEWABLE ENERGY AND ENERGY EFFICIENCY UNDER A CALIFORNIA CAP-AND-TRADE PROGRAM

Dear Ms. Orlando,

The SF Carbon Collaborative appreciates the Air Resources Board devoting a public workshop to the question of allowance set asides for voluntary renewable energy (RE) and energy efficiency (EE) investments under a cap-and-trade program. RE and EE are generally recognized as central strategies for reducing greenhouse gas emissions in industrialized economies, and the State's Scoping Plan goes a long way toward ensuring their continued and appropriate utilization. According to a recent report from the National Renewable Energy Laboratory, the amount of renewable energy purchased through the voluntary market has exceeded the amount purchased from new clean energy generators for compliance purposes, e.g. renewable portfolio standards, for the period 2003 – 2008. [i]

Based on the above findings and the collective experience of its members, the San Francisco Carbon Collaborative believes that an "appropriate" use of allowance set asides for renewable energy and energy efficiency projects will encourage continued and additional voluntary action in these areas.

Founded in San Francisco in February 2009, the SF Carbon Collaborative is a non-profit partnership of over 50 local government, business, and environmental organizations working to accelerate the development of effective business and policy responses to climate change. The organization achieves its objective by delivering programs that: build stakeholder capacity; support the development of just, inclusive, and effective public policies, and; foster the creation, commercialization, and deployment of environmentally friendly technologies.

The policy positions taken by the SF Carbon Collaborative reflect a consensus of its members, though each position may not reflect the full opinion of each individual member. The Collaborative recognizes the complexities of designing a system and set of policies to effectively and equitably reduce green house gas emissions and makes its best effort to negotiate the interests and intentions of its members in support of existing public engagement processes.

The intention of this written comment is not to advocate for a particular set of methodologies or measurement and verification protocols at this point (these would need to be developed and approved by CARB at a later date), but rather to suggest the adoption of a system design that acknowledges and preserves the role of voluntary action in an overall green house gas reduction program. As such, the consensus of the SF Carbon Collaborative Policy Engagement membership is that the following system design principles frame the most "appropriate" use of set aside allowances.

1. The creation of allowance set asides should "do no harm", meaning that RE and EE allowances should be carved out of the total allocation pool rather than taken from the allowances that might otherwise be distributed to any particular sector or any given set of stakeholder. This should encourage broad based support from capped entities and other compliance buyers.
2. Any unused set asides should be rolled forward into future set aside allowance pools.

In addition, the SF Carbon Collaborative urges CARB to consider the following:

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- Sufficient incentives are necessary to ensure ongoing voluntary investment in RE and EE. The price signal that a cap-and-trade program can provide is a necessary element of the overall incentive framework, but a diffuse price signal alone is not sufficient to ensure an optimal voluntary sector response.
- Particular attention should be given to the range of incentives currently driving action by households and businesses that are not directly regulated under a cap-and-trade program, collectively referred to as the voluntary sector. Once a cap is established, its design will potentially have an impact – favorable or unfavorable – on a number of these voluntary sector incentives. The Center for Resource Solutions, which certifies approximately 65% of voluntary RE transactions nationally and more than 2/3 of all voluntary REC transactions under the Green-e Energy Standard, anticipates that the demand for voluntary RE would decrease dramatically without a pool of set aside allowances.
- For RE and EE, the issue of who owns the environmental attributes of a voluntary GHG emission reduction project changes once a cap is in place. Establishing an "off the top" allocation of set aside allowances for these types of projects keeps alive the possibility that voluntary actors may retain ownership of the environmental attributes of their projects. Without set aside allowances, the claims of "GHG reduction" associated with these projects are compromised and the environmental attributes, along with any monetary value associated with them, will flow directly to the capped entities.
- The retirement of set aside allowances to account for voluntary renewable energy investments preserves the integrity of their emission reduction claims, keeping the voluntary sector active. This, in turn, may help to produce additional reductions beyond those required of capped entities. The surging voluntary market for RE has shown it can deliver significant new investments in emission reduction projects. As such, it should continue to be supported.
- Without a set-aside, whereby allowances for voluntary action are retired by the issuing agency, people or businesses that wish to contribute additional voluntary reductions from RE would face new financial hurdles once a cap-and-trade program is in effect. These voluntary actors would need to acquire and retire their own allowances to preserve the integrity of their voluntary GHG reduction claims under the cap.
- Voluntary energy efficiency investments also have the potential to contribute a large source of low cost GHG reductions, though currently there are challenges to realizing their full potential. Designing a cap-and-trade system that allows for the possibility of EE set asides can open the door for additional action by a wide range of stakeholders from green building developers, to equipment manufacturers, to recycling operators, at residential, municipal, and commercial levels.
- The SFCC recognizes that the "infrastructure" needed to measure and verify EE emission reductions is still in the formative stages of its development. While this may present some additional challenges not presently faced by the more mature RE industry, the potential for gains attributable to the development of voluntary EE projects should not be discounted.
- Allowing EE projects to qualify for set aside allowances within capped sectors would be contingent on these projects meeting the same levels of rigorous standards as other project types. These standards will be developed at some future point, assuming that the design of the cap-and-trade system allows for their possible inclusion as valid emission reductions measures. Were this the case, it would likely open up competition, spur innovation, and promote capital efficient investment across sectors, all without diminishing the strength of the cap.

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[i] Lori Bird, Claire Kreycik, and Barry Friedman, "Green Power Marketing in the United States (11th Edition)" National Renewable Energy Laboratory, October 2008. www.nrel.gov/docs/fy09osti/44094.pdf