



June 9, 2009

Tim Anderson

Mr. Kevin Kennedy
California Air Resources Board
1001 I Street
Sacramento, CA

RE: Use of Allowance Set Asides in a Cap-and-Trade Program

Dear Mr. Kennedy,

Thank you for the opportunity to submit comments regarding the use of allowance set asides in a cap-and-trade program as discussed in your May 18, 2009 workshop. We have a deep interest in this matter because of the large investment we and other local governments have made and will be making in the area of energy efficiency and renewable energy for climate protection goals.

Issue Statement

Our desire is to insure that the Air Board's cap-and-trade rules clearly recognize the carbon reductions resulting from local government actions and assure that these programs receive the same incentives and allowances as those achieved by capped entities under AB-32 rules.

The reason we are concerned about this is our understanding that cap-and-trade programs in general tend to provide offsets (not allowances) to uncapped entities like local governments, and that only emissions reductions from uncapped sources like agriculture and forestry are recognized. Such a limitation could eliminate or severely reduce an important incentive for agencies like ours to pursue energy efficiency and renewable energy projects which address capped sources.

Suggested Solutions

You may have identified appropriate rules to address this concern from discussions at the workshop on May 18. I am aware of two alternative approaches that could assure that our concerns are addressed as described in the following:

#1. Include language in the rules for the cap-and-trade program that requires capped entities to agree to reimburse local governments for renewable power, energy and water efficiency, electric vehicle, land use and transportation programs that support AB-32 compliance by the capped entity. Reimbursement should be set at 100% of the market price for the equivalent of allowances resulting from local government projects and programs. The basic concept is that the capped entity that benefits from local government programs reimburses local government for the value of the allowances. Local government programs could be subject to the same rigorous quantification and audit as would be expected from the capped sector.

#2. Provide an allowance set aside for local government programs in renewable power, energy and water efficiency, electric vehicle, land use and transportation programs. Again,

local government programs could be subject to the same rigorous quantification and audit as would be expected from the capped sector.

Benefits of the Proposed Solutions

Assuring that local governments receive full value for these allowances under the future cap-and-trade programs will help tap the very significant future emissions reductions that these entities are uniquely positioned to deliver. For example, the County of Sonoma expects to implement more than \$100 million in energy efficiency and renewable energy programs in an AB-811 voluntary financing program. Projects are also being planned that will greatly increase renewable power production and bring more than 1000 all electric vehicles to our communities. We anticipate that the opportunity to sell allowances or receive equivalent value for emissions reductions will help justify the cost and enable these projects to be completed.

Absent any allowance set aside or reimbursement, energy efficiency and renewable energy programs could provide a windfall of allowances to capped entities that would benefit from projects completed at public expense.

The alternatives suggested here have an added advantage over financial incentives or grant programs. Grant programs bring heavy overhead costs for the state and usually have considerable cost to applicants for grant writing, contracting and financial auditing.

Thank You

We strongly support your work to implement innovative and effective programs to reduce the risk of climate change. If we can be of any assistance in this effort please feel free to call.

Sincerely,



Tim Anderson
Government Affairs Coordinator

- c. Sonoma County Board of Supervisors
 - Suzanne Smith, Sonoma County Transportation Authority
 - Senator Pat Wiggins
 - Senator Mark Leno
 - Assembly Member Wes Chesbro
 - Assembly Member Noreen Evans
 - Assembly Member Jared Huffman
 - Jennifer West, Geyer Associates