



March 8, 2013

Chair Mary D. Nichols
California Air Resources Board (CARB)
1001 I Street
Sacramento, CA 95814

RE: Cap-and-Trade Auction Proceeds Investment Plan Principals and Recommendations

Dear Chair Nichols:

On behalf of the Los Angeles Area Chamber of Commerce (“Chamber”) and our 1,600 member organizations, we are writing to provide recommendations for how the state’s portion of the cap-and-trade program (“Program”) auction proceeds should be invested in and appropriated by the Greenhouse Gas (“GHG”) Reduction Fund (“Fund”).

Of the multiple goals outlined in the implementing statute (AB 1532 and SB 535), the Chamber is particularly supportive of investments that 1) foster job creation by promoting in-state GHG emissions reduction projects carried out by California workers and businesses; and 2) provide opportunities for businesses, public agencies, nonprofits, and other community institutions in California to participate in and benefit from statewide efforts to reduce GHG emissions.

The Chamber held its own cap-and-trade auction proceeds workshop in February 2013 to identify the investments that would best achieve the aforementioned goals. 30 of our largest private and public sector member organizations participated in the workshop, including southern California-based utilities, fuel providers, transportation and goods movement agencies, entertainment companies, environmental attorneys, technology firms, and renewable energy investors and developers. The following principals and recommendations emerged from the workshop:

- **Invest at least 50% of the auction proceeds in Southern California:** Southern California is home to almost half of the state’s population and accounts for a majority of the GHG emissions generated by the state. The South Coast Air Basin is also one of the few regions in the state that is currently out of compliance with federal air quality standards and will be required to make significant reductions in its GHG emissions profile over the next several decades in order to comply with its 2012 Air Quality Management Plan. Furthermore, in order for the state to meet its AB 32 and State Implementation Plan goals, a majority of the GHG reductions will have to take place in Southern California. For these reasons, the Chamber believes that at least half of the auction proceeds should be invested in Southern California-based projects and programs.
- **Provide financial assistance to entities subject to the cap-and-trade program:** The Chamber believes that as a general principal, entities that bear the responsibility and cost of complying with the Program should derive some benefit from the investments. Entities

subject to the Program will also play a critical role in helping the State meet its 2020 GHG emissions target. To meet the target, entities will have to purchase new technology and make costly capital improvements to their operations and facilities. Therefore, a portion of the investments should be made available to entities subject to the Program for capital improvement projects and the purchasing of best available technologies.

- **Offset increases in energy costs for businesses:** Rule 11-03-012 adopted by the California Public Utilities Commission (CPUC) in November 2012¹ requires investor-owned utilities to “allocate greenhouse gas allowance revenues, including accrued interest, to offset the rate impacts of the cap-and-trade program in the electricity rates of small businesses.” However, only business that consume 20 kilowatts in more than three months within a twelve-month period are covered by the policy, leaving most commercial and industrial businesses vulnerable to future increases in energy prices. The Chamber believes that a portion of the investments should be used to offset increases in energy costs associated with the cap-and-trade program for businesses excluded from the CPUC policy, especially those operating in energy-intensive, trade-exposed industries.
- **Invest in transportation and goods movement infrastructure:** The transportation and goods movement sector is the largest contributor of GHG emissions in Southern California. However, Los Angeles is taking great steps to reduce GHG emissions from this sector by making significant investments in its regional transit system. Los Angeles is still in need of additional funding support for transit infrastructure expansion and operations. The Chamber believes that a portion of the investments should be allocated to helping improve Southern California’s regional transportation system, including our freight and goods movement infrastructure. Investing in transportation would significantly improve air quality, foster in-state job creation, and provide opportunities for private, public and non-profit sector collaboration.
- **Expand utility energy efficiency programs:** Energy efficiency programs have proven to be the one of the most cost-effective methods of reducing GHG emissions in California and will help the state reduce its future energy needs in the long term. A portion of the investments should be used to expand energy efficiency programs statewide. However, those funds should be administered through existing programs offered by utilities given that they have the programmatic infrastructure, experience and expertise needed to quickly and most cost effectively deploy the resources.
- **Invest in water supply, conveyance and treatment improvements:** Water use currently accounts for 19% of the state’s energy consumption. The Chamber believes that given our region’s aging water infrastructure and the amount of water conveyed to and consumed in Southern California, reducing energy use and increasing energy efficiency

¹ Rule 11-03-012, California Public Utilities Commission, November 16, 2012.
<http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M031/K744/31744787.PDF>

related to the supply, conveyance, treatment and use of water in Southern California should be a priority for the state.

- **Leverage private and other government investment to the maximum extent possible:** Investment firms that participated in our workshop indicated that using a portion of the investments to fund third party underwriting and other credit enhancement services for renewable energy and energy efficiency projects could leverage \$10 in private funding for every \$1 invested from public funds. Investing in these types of services could magnify the impact of the GHG Fund and help expand the growth of renewable energy and energy efficiency projects throughout the state.

The Chamber remains committed to helping the state meet its AB 32 goals. However, we are concerned that the manner in which the cap-and-trade program of AB 32 is being implemented may place Southern California's regional economy at a competitive disadvantage. How the funds derived from the Program are reinvested in the state will have a significant impact on the growth and continued success of our regional and state economy. The Chamber will continue to track and provide feedback throughout the investment planning process and we will work with business and civic leaders in Los Angeles and state lawmakers to ensure that the cap-and-trade program goals are achieved in the most cost effective and economically beneficial way for our region and state. We look forward to working with the California Air Resources Board and implementing agencies to develop an investment plan that both improves air quality and grows our state's economy.

Sincerely,



Gary Toebben
President & CEO

CC: Board Member Daniel Sperling
Board Member Phil Serna
Board Member Dorene D'Adamo
Board Member Barbara Riordan
Board Member John R. Balmes, M.D.
Board Member Hector De La Torre
Board Member Sandra Berg
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