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September 14, 2018

Edie Chang
California Air Resources Board
1001 I Street
Sacramento, CA 95814
Submitted electronically via https://www.arb.ca.gov

RE: Draft Cap-and-Trade Auction Proceeds Third Investment Plan: Fiscal Years 2019-20 through 2021-22 (Release Date August 21, 2018)

Dear Ms. Chang,

We submit the following comments on behalf of the California Council for Environmental and Economic Balance (CCEEB) on the California Air Resources Board (CARB) *Draft Cap-and-Trade Auction Proceeds Third Investment Plan: Fiscal Years 2019-20 through 2021-22* ("Investment Plan"). CCEEB is a nonpartisan, nonprofit coalition of business, labor, and public leaders that advances strategies for a healthy environment and sound economy. Many CCEEB members are regulated entities in the state's cap-and-trade program, and CCEEB has been an active partner with CARB in design of cap-and-trade since the program's inception.

CARB's Investment Plan is an important document guiding the overall state funding strategy for cap-and-trade auction revenues. Since 2012, the Governor and the Legislature have appropriated over $8 billion in auction proceeds. Throughout this time, CCEEB has been actively engaged with CARB, the South Coast Air Quality Management District (SCAQMD), and the Bay Area Air Quality Management District (BAAQMD) in legislative advocacy to secure critically needed funding for air quality and climate change investments. To this end, our comments are intended to support CARB in refining funding decisions to advance a healthy environment and sound economy.

Our high-level comments are:

- **CCEEB supports the legislative priorities of achieving greenhouse gas, air toxic, and criteria pollutant emissions reductions through California climate investments**, as directed by Assembly Bill 398 (E.

Garcia, Chapter 135, Statutes of 2017).[1] CCEEB believes these investments can play a critical role in reducing emissions to achieve attainment of federal and state air quality standards and other emissions that directly impact local public health, particularly in disadvantaged communities most burdened by air pollution.

- **The Investment Plan should better articulate how CARB applies project metrics for GHG reductions and co-benefits** to help make funding decisions across the multiple investment programs more transparent to the public and the Legislature.

What follows is a more detailed discussion and analysis of these key points.

Climate Investments Should Prioritize Needed Emissions Reductions

Greenhouse Gas Reductions

The cap-and-trade program is intended to maximize environmental and economic benefits for California, among other things.[2] The Greenhouse Gas Reduction Fund (GGRF), under the priorities identified in the first (2013) and second (2016) cap-and-trade investment plans, has produced quantifiable greenhouse gas (GHG) emission reductions. CARB estimates that investments implemented through 2017 will have reduced an estimated 23.3 million metric tons of carbon dioxide equivalent ($MMTCO_2e$).[3] To this end, CCEEB continues to support the use of cap-and-trade revenues to achieve the maximum GHG emission reductions feasible while benefiting all Californians.

Criteria Pollutants and the State Implementation Plan

According to CARB analysis, approximately 12 million Californians statewide live in communities that exceed federal standards for ozone and fine particulate matter (PM2.5).[4] CARB's Mobile Source Strategy states that, "Mobile sources—cars, trucks, and a myriad of off-road equipment—and the fossil fuels that power them are the largest contributors to the formation of ozone, PM2.5, diesel particulate matter, and GHG emissions in California. They are responsible for approximately 80 percent of smog-forming nitrogen oxide (NOx) emissions, 90 percent of diesel particulate matter emissions, and nearly 50 percent of GHG

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1 See Health & Safety Code Section 38590.1(a)(1).

2 California Health and Safety Code Section 38570(b)(3)

3 CARB. "Draft Cap-and-Trade Auction Proceeds Third Investment Plan: FY 2019-20 through 2021-22." August 21, 2018. Page 1.

4 CARB. "Mobile Source Strategy." May 2016. Page 21.

emissions. Given this contribution, significant cuts in pollution from these sources are needed."[5]

Reducing emissions is particularly critical for the South Coast and San Joaquin Valley, the only two regions in the nation designated as "extreme" nonattainment for the federal 8-hour ozone standard. In both of these regions, reducing NOx is key to achieving not just the ozone standard, but also the 24-hour and annual PM2.5 standards.[6]

A full suite of state and regional regulations are in place to reduce emissions from all sources (i.e., stationary, mobile, and area sources), and these existing regulations account for the vast majority of measures in the CARB-adopted State Implementation Plan (SIP) and regional Air Quality Management Plans (AQMPs).[7] However, CARB has recognized that regulations alone will not be enough to achieve ozone and PM2.5 standards, and that incentives must play a role in closing the emissions gap. Incentives work by either accelerating the deployment of clean technologies and turnover of engines and vehicles (i.e., early reductions), by helping sources go "beyond compliance" and regulatory requirements (i.e., additional reductions), or by supporting needed research and development of advanced technologies that could one day become technologically feasible and market ready.

While the SIP estimates the significant need for incentives, it stops short in fully identifying the sources of funding. In the SCAQMD's 2016 Air Quality Management Plan (AQMP), for example, CARB and the District estimates indicated that $1 billion per year is needed through 2031 to achieve the necessary turnover of fleets and equipment.[8] Yet, so far, only a portion of this funding has been secured through state and federal incentive programs.

CCEEB believes the GGRF is an important and sustainable funding source that can help the state and its regions meet health protective air quality standards, as required by the SIP. **We recommend that CARB include in its Climate Investment Plan accounting to show what portion of proceeds could potentially be directed towards the state's SIP commitments**, taking into consideration that programs will need to pass several EPA "tests" (e.g., showing the reductions are additional, verifiable, and enforceable) in order to be SIP

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[5] Ibid, page 5.

[6] Ibid, page 23.

[7] In the South Coast, regulations will reduce NOx emissions by an estimated 64 percent by 2031 from a 2015 baseline. CARB committed to reducing NOx by an additional 16 percent through incentives for deployment of clean technologies, with most of those reductions coming from off-road federal and international sources outside of air district or CARB regulatory authorities.

[8] SCAQMD. "Financial Incentives Funding Action Plan for the 2016 Air Quality Management Plan." December, 2016. Page ES-1.

creditable. Indeed, CCEEB suggests that such an accounting become standard practice across all of CARB's incentive programs.

Toxic Air Contaminants

In 2017, CCEEB supported the passage of Assembly Bill 398 (E. Garcia, Chapter 135, Statutes of 2017), which, among other things, established seven priorities for the expenditure of cap-and-trade auction revenues. The first priority identified is "air toxic and criteria air pollutants from stationary and mobile sources."[9] This priority, and the concurrent passage of AB 617 (C. Garcia, Chapter 136, Statutes of 2017), made clear that the legislature intended for cap-and-trade auction proceeds to directly benefit public health improvements through the rapid reduction in localized pollutants, primarily toxic air contaminants (TACs or "air toxics") and PM2.5, particularly in communities most burdened by air pollution.

CCEEB supports the use of GGRF to help reduce local emissions through implementation of AB 617 programs, as well as the targeting of appropriate incentive funds to emissions reduction projects in AB 617 and other disadvantaged communities. To be most effective and health protective, CCEEB believes these investments should look to maximize near-term public health benefits through reductions in TACs and PM2.5. In addition, a portion of funding must go to cover CARB and air district administration and direct program costs and to support development of new innovations in community-level control strategies, community air monitoring, and community capacity building.

Evaluating and Articulating Emissions Reductions and Co-Benefits

Chapter VI of the Investment Plan briefly describes several evaluations CARB staff makes for GGRF-funded programs, including analysis of GHG reduction cost effectiveness and quantification of co-benefits, such as air pollutant emissions reductions and reductions in vehicle miles traveled. However, the Investment Plan does not describe how the results of these evaluations, or "lessons learned," have been applied to improve or inform prioritization of state climate investments. **CCEEB asks staff to expand this chapter and explain what, if any, program or allocation adjustments have been made over time based on CARB evaluations.**

In particular, CCEEB would like to see an accounting of estimated emissions reductions (past and future) along with cost effectiveness calculations. The Investment Plan makes clear that AB 1532 (Pérez, Chapter 807, Statues of 2012) requires that funds facilitate feasible and cost effective emission reductions.[10]

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[9] California Health and Safety Code Section 38590.1(a)

[10] CARB. "Draft Cap-and-Trade Auction Proceeds Third Investment Plan: FY 2019-20 through 2021-22." August 21, 2018. Page 32.

We believe this information is needed to inform legislative decision makers and public stakeholders about which programs can provide the greatest value to California residents and communities, as well as helping to identify those programs that achieve the most emissions reductions and local public health benefits. As previously discussed, we also strongly recommend that CARB develop a metric that tracks progress towards meeting state SIP commitments and achievement of state and federal air quality standards in all regions.

In terms of benefits for disadvantaged communities (DACs), CCEEB recommends that CARB supplement its current “dollars-spent-in-DACs” accounting with metrics that estimate community-level emissions reductions, to the extent that this is possible. We believe that community assessments undertaken as part of AB 617 could provide data to aid in such an analysis. While some co-benefits are difficult to quantify, this should not prevent CARB from quantifying those co-benefits that can be counted, and it should certainly not prevent staff from sharing the results of its analysis in simplified but meaningful terms as part of its incentive planning processes.

CARB’s Vision Planning Model (“Vision”), which examines different technology pathways and scenarios, is another tool that could provide valuable information for making investment decisions. Staff could work to distill Vision analysis as it pertains to how different technology pathways result in varying levels of emissions reduction opportunities across multiple pollutants over time. We note that the discussion of the Vision model in the Mobile Source Strategy is at a very high level and lacks necessary detail on specific technology options.[11] By linking the Vision Model to incentives planning, CARB can develop an alternatives analyses of different funding scenarios in the Investment Plan. At the minimum, a maximum emission reduction alternative should be conducted, providing stakeholders with an understanding of what near-term emission reductions would look like and mean across state programs.

CCEEB would like to work with CARB staff to develop more meaningful evaluation metrics and reporting practices so that all public stakeholders can understand state funding decisions and participate in legislative and agency decision-making about program priorities and fund allocations. CARB and the other administering agencies must balance funding across a number of legislatively mandated priorities and requirements often involve complicated tradeoffs among pollutants, sources of emissions, time scale, and geographic reach.[12] This complexity is further compounded by the numerous state incentive programs available, which includes but certainly is not limited to the GGRF climate investments. That said, the GGRF remains one of, if not the most

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[11] CARB. “Mobile Source Strategy.” May 2016. Pages 31-32.

[12] See, for example, SB 535, AB 1532, and AB 398.

important funding source available to CARB and the air districts, and warrants special attention.

We appreciate the opportunity to provide these comments and look forward to engagement with staff. In the meantime, should you have any questions or wish to discuss our comments further, please contact me at billq@cceeb.org or 415-512-7890 ext. 115, Janet Whittick at janetw@cceeb.org or ext. 111, or Devin Richards at devinr@cceeb.org or ext. 110.

Sincerely,

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