



# South Coast Air Quality Management District

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Mary Nichols  
Chairman  
California Air Resources Board

James N. Goldstene  
Executive Officer  
California Air Resources Board

Re: Recommendations for Investment Plan for Cap-and-Trade Auction Proceeds

Dear Chairman Nichols and Mr. Goldstene:

Thank you for inviting me to participate as one of the panelists for the May 24<sup>th</sup> public consultation meeting. I am looking forward to contributing and to hearing comments from experts and stakeholders regarding how CARB can use the auction funds from the cap-and-trade program to meet the goals of AB 32. The South Coast Air Quality Management District (SCAQMD) staff agrees that supporting long-term transformative efforts to improve public health and develop a clean energy economy is critical, and we have recommendations for criteria that should be included, and programs that should be considered for funding, through the investment plan.

As you know, the SCAQMD Governing Board and staff are supportive of climate change efforts, and strongly believe that we need to maximize synergies between climate change, criteria and air toxics programs. We are committed to providing assistance to CARB in your efforts to develop the criteria and investment strategies that will: accelerate reductions of greenhouse gases and other pollutants; contribute to technology advancement; provide additional benefits for sensitive populations and assist local governments and communities; and support local businesses.

Summarized below are SCAQMD staff recommendations related to select criteria and to the programs that should be supported through the cap-and-trade auction proceeds.

### **Recommendations Regarding Criteria**

Projects or programs should be funded through a competitive process that gives weight to factors that support the goals of AB 32, while also promoting long-term transformative efforts to improve public health and develop a clean energy economy.

In addition to the technical merits and cost aspects of a proposal, the following factors should be considered and afforded extra points in a competitive bid process. Similar factors have been used in other state and local programs.

Environmental and energy co-benefits – Projects that provide maximum co-benefits in addition to reducing greenhouse gases should be prioritized. Co-benefits that can and should be sought include: (1) local and regional criteria and toxic pollutant reductions, particularly in heavily polluted and environmental justice areas; (2) energy security and efficiency, including reduction in petroleum dependence -- particularly in sectors such as goods movement that are important to our economy; and (3) energy cost certainty, again with emphasis on sectors important to our economy. Providing such co-benefits will help to achieve multiple state policies and goals, and build support from a variety of stakeholders, including business and environmental interests. Moreover, these efforts can help address environmental justice concerns prior to adaptive management being needed.

Matching funds – Projects that bring in matching funds will help make the auction proceeds go further and will demonstrate a commitment to the project.

Advance technology – To enable the truly significant changes that will be needed to meet AB 32 goals and meet stringent ambient air quality standards, projects that advance technology should be given extra points in a competitive process.

Increase jobs – Projects that are able to demonstrate temporary or sustained job creation in California will be beneficial for the State and local economies and should be encouraged.

### **Funding Recommendations**

SCAQMD staff recommends the following programs be supported through use of auction proceeds from the cap-and-trade program. These programs will help California achieve needed greenhouse gas reductions while also making significant contributions to reducing criteria and toxic pollution. More importantly, these types of projects are critical to achieving the longer-term objectives of developing the technology and infrastructure to support the future, energy diversity and security, securing emission reductions, and assisting local government and communities. These ideas are briefly described below.

#### Technology infrastructure development and deployment

- **Zero- and near-zero emission goods movement**– Deployment of zero- and near-zero emission technologies for trucks and locomotives is needed to help reduce greenhouse gases, criteria and toxic pollution in some of the most heavily polluted environmental justice areas in the state, and to accelerate removal of equipment that can last for many decades. Types of technologies to be funded include fuel cell, battery electric,

and hybrid electric -- particularly hybrid electric with all-electric range. Hybrid-electric technologies with all-electric range could also be coupled with alternative fuels such as natural gas in trucks and other equipment.

- Goods movement incentives – Incentives for low-NOx technologies and strategies that also reduce greenhouse gases should be offered for ocean-going vessels that are significant sources of pollution along the California coastline. For example, heat recovery systems have the potential to reduce greenhouse gas emissions and NOx emissions.
- CARB Technology Advancement Program – CARB should develop a program to direct research, development, and deployment of mobile source technologies that would advance the state climate change and air pollution reduction goals. There is much room for improvement in developing new technologies to greatly improve mobile source efficiencies while reducing money spent on fuel and reducing greenhouse gas and other emissions. In addition, these research initiatives would help foster small businesses and provide global technology leadership.

#### Energy diversity and security

- Energy storage – As the state moves to greater use of alternative electricity generation, such as wind and solar, energy storage will be critical to ensuring system reliability.
- Distributed generation – Increasing clean onsite power production decreases the reliance on centralized power plants, provides greater grid reliability, and reduces the need for transmission infrastructure and infrastructure improvements. Combining the waste heat from localized generation sources such as fuel cells into a building's operation provides extremely high system efficiencies.
- Hydrogen infrastructure – Additional resources directed to the expansion of the infrastructure needed for fueling hydrogen vehicles would support the use of this alternative fuel. Moreover, such infrastructure is needed to help ensure the early introduction of hydrogen-powered vehicles in support of the zero-emission vehicle regulations.
- Biomass-to-energy – Opportunities also exist to help preserve and nurture California's forests by removing otherwise decaying wood and converting it to electricity. This technique could provide a powerful tool in reducing wildfires and associated air pollution.

#### Emission reductions

- Incentive program for stationary sources – An incentive program for stationary sources, similar to the Carl Moyer program for mobile sources, would help to accelerate turnover of older, energy-inefficient and higher polluting equipment. This could be of great benefit to companies that do not have the financial means to modernize their facilities to become more energy efficient and less polluting. In addition, funds for early retirement of older woodstoves would provide benefits in many geographic areas.

- Accelerate vehicle turnover – To meet AB 32 goals and criteria pollutant standards in non-attainment areas, substantial efforts will be needed to incentivize earlier turnover for all feasible applications. This would include all on-road and off-road vehicles.
- Increase incentives for zero- and near-zero vehicles – Additional incentive funding opportunities for consumers and businesses is needed to help with the purchase of cleaner vehicles. This will help reduce emissions and will also help future mobile source regulatory programs by demonstrating the widespread use and viability of zero- and near-zero vehicles for commuter and other uses, and by jump starting advanced technology markets.
- Incentives for building retrofits – Additional incentives for LED lighting, weatherization, and other building retrofits are greatly needed. Priority should be given for low-income families and communities.

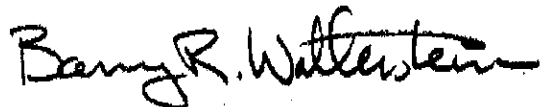
Assisting local government and communities

- SB 375 – Local governments will need assistance to meet the emission reduction goals established through SB 375. CARB should use auction proceeds to fund projects that implement best management practices through competitive grants. Another worthwhile use of funds would be the creation of a clearinghouse for local government to catalog—and provide a mechanism for sharing—information on best management practices.
- Tree Planting – Tree planting in urban areas and forests will be of benefit to local governments and communities. CARB should focus on projects that use the Job Corps, or similar organization that provides jobs and training for disadvantaged and at-risk young people.

While all the above programs are deserving of consideration for funding, the State of California should primarily focus on those options that are transformative and will place California in a leadership role economically and public health-wise for a sustainable future for decades to come. In addition, careful consideration should be given to providing funding first to the most critical activities especially those that will not otherwise occur in a timely fashion. Finally, allocation of project funds should be beyond maintenance of current efforts.

Thank you for the opportunity to participate in the panel discussion and for your consideration of these recommendations. I look forward to assisting in this important endeavor.

Sincerely,



Barry R. Wallerstein, D.Env.  
Executive Officer

BRW/drw

cc: CARB Board Members  
Dr. William Burke