



June 4, 2010

California Air Resources Board

RE: AIR BOARD MEETING TO DISCUSS ALLOWANCE ALLOCATION AND NEXT STEPS IN THE CAP-AND-TRADE PROGRAM, MAY 17, 2010

Dear Air Board Members and Staff,

Thank you for the opportunity to comment on the topic of allowance allocation in the Cap-and-Trade program as discussed in your public meeting on May 17, 2010. While we are very impressed by the work the Air Board is doing to implement AB-32, there is one aspect of the proposed allocation of allowance value that is of great concern to the Sonoma County Water Agency.

The Issue – Allowance Value for Local Public Agency Programs

Air Board staff recommended that allowance value under AB-32 be allocated to utilities for renewable energy development and to other purposes. The recommendation provides little direct allocation of allowance value to local public agency programs like AB-811/PACE programs.

Why is this problematic?

Local governments in California lead the nation in programs to cut GHG emissions from capped sectors through programs like AB-811/PACE programs that reduce energy use and carbon emissions. Sonoma County's AB-811 program funds more than \$2 million per month in renewable power and energy efficiency upgrades. Potential expenditures for these programs statewide over the CARB planning period total billions of dollars.

ARB rules, as described in the May 17th public meeting, would ensure that:

1) Energy savings achieved with local public funds serve mainly to create windfall of marketable allowances for utility monopolies and other capped entities in California.

2) GHG reductions achieved with local public funds enable increased energy use elsewhere in the economy and have limited benefit for climate protection.

The proposed rules would construct a large disincentive for local governments to contribute to climate protection solutions and serve to weaken the effectiveness of the cap-and-trade program.

What could be done to correct this inequity?

1) *Implement rules that require capped entities to reimburse local public agencies for the equivalent allowance value of documented energy efficiency and renewable energy programs implemented by local agencies.*

2) *Reduce statewide base allowance budget by an amount equivalent to documented emissions reductions from energy efficiency and renewable energy programs implemented by local agencies.*

These two actions would serve to prevent a windfall of unearned allowances for capped entities, assure that local agency programs make real contributions to climate protection goals and provide a strong incentive for local agencies to expand their climate protection programs. Local agencies could pass these benefits to back to property owners in the form of lower interest rates, lower fees for participation, or focus dollars on specific energy saving initiatives in the community.

The Preliminary Draft Regulation could be amended to include the following draft language:

Subarticle 15 – Other Provisions (or other appropriate subarticle)

Section 965XX GHG reductions by local public agencies: Regulated entities must establish a program to reimburse local public agencies for the allowance value of documented GHG reductions achieved by local public agency programs. ARB must reduce the base allowance budget for the compliance period by an amount equal to the documented GHG reductions by local public agency programs.

Thank you again for the opportunity to comment on this important regulatory effort. If we can be of any assistance to you in this work please call.

Sincerely,



Grant Davis
General Manager