

October 6, 2009

Chairman Larry Goulder  
Economic and Allocation Advisory Committee  
California Air Resources Board  
1001 I Street  
Sacramento, CA 95814

Dear Chairman Goulder and Committee Members,

Thank you for participating in the California Air Resources Board's (CARB) Economic and Allocation Advisory Committee (EAAC). Your recommendations will influence the delivery of real economic opportunities for communities, households, and businesses.

The purpose of this letter is to urge EAAC to recommend setting aside a portion of cap and trade allowances for greenhouse gas (GHG) reductions achieved by non-capped entities such as local governments<sup>1</sup> and community-based organizations. These entities should be able to sell the set-asides in California's carbon market to help fund their clean energy and energy saving initiatives as well as land-use conservation efforts, or retire them to retain credit for the GHG reduction benefit.

The benefits from creating an allowance set-aside mechanism will complement an allowance auction revenue fund for GHG reduction activities and natural resource adaptation. That is, both options are viable policy tools to promote investments in California's communities and engage critical actors in the California economy that are well-positioned to achieve the objectives of AB32, but might otherwise have their contributions not recognized. Providing allowance set-asides will:

- Empower and inspire local governments and community-based organizations to mitigate GHG emissions that they are uniquely positioned to effect;
- Deliver low-cost emissions reductions;
- Drive innovation in clean technology, energy conservation, land use planning, and natural system protection;
- Moderate potential cost impacts of climate policies on households and small businesses;
- Help protect at-risk communities and provide important environmental co-benefits.

### **EMPOWERING LOCAL GOVERNMENTS AND COMMUNITY-BASED ORGANIZATIONS IN THE CAP AND TRADE PROGRAM EXPANDS GHG REDUCTION OPPORTUNITIES**

Creating an allowance set-aside mechanism for local government and community-based organizations will empower and inspire the development of additional low-cost GHG reductions because these entities will be able to access new funding opportunities through the carbon

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<sup>1</sup> Local government entities include cities, counties, school districts, and other special districts including, but not limited to, water districts and sanitation districts. It is worth noting there are over 1000 school districts in California, in addition to 58 counties, and close to 500 cities.

market.<sup>2</sup> Otherwise, these entities could be forced to forego some important projects. Set-asides also have the positive result of allowing local governments and community-based organizations to directly participate in the AB32 cap and trade program, which enables community members to have a stake in activities like energy, natural resource and land-use conservation efforts that lead to GHG reductions. Ultimately, set-asides will expand the pool of potential GHG reduction opportunities.

Local governments and community-based organizations are often the first place where problems and challenges from energy and resource use and conservation are identified, and where solutions are developed. Local governments have a history of acting as “first responders” to changing views and conscience regarding pollution control, and therefore, take a broad view of energy and natural resource use within the context of smart growth, building design, transportation, land use, conservation and related topics. Correspondingly, because the purpose of cap and trade is to create a system that encourages and rewards GHG reduction activities, excluding local government entities and community-based organizations from participating in the program misses a significant segment of potential carbon market participants, and by extension, the reductions they can significantly effect (i.e., community-driven efficiency, parks and open space protection). This in turn limits the program’s effectiveness. Local government entities and community-based organizations are in the best position to identify and implement programs that align community needs with state, regional, and national policy objectives.

Without set asides, achieving emission reductions will fall entirely to the largest polluters and will not give important members of our society and economy an active role to play in efforts to fight global warming. Allowing set asides, on the other hand, can inspire the marketplace to value reductions at the household, small business, and community level on par with large emitter efforts, while avoiding challenges of double-counting or contested ownership of reductions.

## **LOCAL GOVERNMENTS AND COMMUNITY-BASED ORGANIZATIONS CAN DELIVER LOW-COST AND INNOVATIVE GHG REDUCTIONS**

Local government entities and community-based organizations have the potential to contribute meaningful, low-cost reductions and drive clean energy and energy saving innovations, along with creating and implementing smart land-use and resource conservation plans that secure GHG benefits. It is commonly known that many energy saving activities are shown to be net economically beneficial, thus these non-capped entities – if allowed to be market participants – can be expected to lower the overall cost of meeting AB32 goals as well as the prevailing allowance price.

Another benefit of set-asides is the creation of new funding source to drive innovation and inspire the broadest possible action in communities and by planning agencies and local government entities, all of which must occur to meet California's 2020 and 2050 caps. Once the cap and trade program explicitly recognizes the GHG reductions from local governments and community organizations through set-asides, the market will value and thus motivate further action. This positive feedback loop will channel resources directly into California’s households, businesses, and landscapes in a dynamic, ongoing fashion and facilitate livable communities.

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<sup>2</sup> We stress that funding from the carbon market to support local government and community-based activities to facilitate clean energy, energy savings, and natural systems protection would produce additional GHG reductions. That is, in conjunction with other funding programs (federal, utility/State), set-asides would provide incremental resources above and beyond what would have occurred otherwise.

In addition to gaining access to carbon market revenue, allowing set asides will also create incentives for the kind of improvements that can help individuals and businesses save money. Whether it's a household installing a new energy efficient refrigerator or a municipal office installing low-flow water fixtures, many actions will result in substantial utility bill savings for years to come. Other examples include land use plans and measures that facilitate carbon sequestration and avoided emissions from forests and grasslands, public transit agency investments, and personal or small business investments in more efficient appliances, improved structures (e.g., weatherization) and both distributed and larger scale renewable energy. Many of these actions pay back in avoided energy, fuel use, and natural resource costs and reduce emissions far more than they cost to implement.

### **LOCAL GOVERNMENT ENTITIES AND COMMUNITY-BASED ORGANIZATIONS WILL PROMOTE CO-BENEFITS AND ENVIRONMENTAL JUSTICE GOALS**

A set-aside mechanism has the potential to provide both environmental and economic co-benefits to the public, including historically polluted and low-income communities. Projects that are implemented by local government entities and community-based groups can produce not only GHG reductions, but multiple ancillary benefits. For instance, projects that protect natural and working landscapes or facilitate urban tree planting also protect and enhance air and water quality and recreation. Many local governments implement these types of projects under local vendor policies, so there are economic development and job creation benefits attendant with them.

Alternatively, failing to rewarding local government entities and community-based organizations for their GHG reduction activities through a set-aside mechanism could perpetuate a system in which disenfranchised and vulnerable communities would continue to be dependent upon utility and state-funded programs. Multiple policy options to mitigate potential increases to the costs of energy and other consumer goods should be pursued, especially those that facilitate local environmental co-benefits and encourage direct investment in local reduction efforts. Examples of such activities include local transportation and land use projects.

California must keep all cost-effective GHG reduction options on the table. Allowing a portion of capped sector emission reductions to be set aside for local government entities and community-based emission reductions will enable greater participation and facilitate a broader range of reductions from entities that would not be engaged otherwise. Furthermore, it can reduce overall compliance costs and facilitate much-needed investment and co-benefits in local communities.

Thank you for considering set aside allowances as you develop recommendations for a cap-and-trade program to benefit all Californians.

Sincerely,

Howard Choy, Chairman, Local Government Sustainability Energy Coalition

James Fine, Economist, Environmental Defense Fund

Michelle Passero, Senior Climate Policy Advisor, The Nature Conservancy

The Local Government Sustainable Energy Coalition is an association of California public entities formed to share information and resources to strengthen and leverage their communities' commitment to a sustainable energy future. It includes: the Association of Bay Area Governments, the Association of Monterey Bay Area Governments, the City of Berkeley, the City of Huntington Beach, the City of Irvine, the City of Pleasanton, the City and County of San Francisco, the City of Santa Monica, the County of Los Angeles, the County of Marin, the County of Ventura, the Energy Coalition, the South Bay Cities Council of Governments. Additional information is available at <http://www.lgc.org/lgsec/index.html>.

Environmental Defense Fund is a national nonprofit organization representing more than 700,000 members and online activities that links science, economics and law to create innovative, equitable and cost-effective solutions to society's most urgent environmental problems. Environmental Defense Fund was a sponsor of California's landmark Global Warming Solutions Act.

The Nature Conservancy is a non-profit conservation organization working around the world to protect ecologically important lands and waters for nature and people.