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December 14, 2010

California Air Resources Board  
1001 "I" Street  
Sacramento, CA 95812

\*Submitted electronically at <http://www.arb.ca.gov/lispub/comm/bclist.php>\*

Dear Chairman Nichols and Board members,

Thanks to you and the CARB staff for all of your work on the draft cap-and-trade regulation. We applaud your efforts to balance the multiple, sometimes competing, objectives of AB 32 in this draft regulation. Though we do not agree with every policy choice, **Center for Resource Solutions supports CARB's approval of this draft regulation.** It will serve as a crucial element of California's plan for smooth transition to a clean energy future and sustainable prosperity. Once again California is leading the nation, and we can demonstrate the great potential for economic progress powered by clean energy.

Center for Resource Solutions (CRS) has deep expertise in the electricity sector, and we write to comment on two particular issues:

1. **CRS is very supportive of the decision to include a voluntary renewable energy (VRE) set-aside mechanism**, indicated by the inclusion in the draft rule of placeholder language indicating this.
2. **CRS continues to have concerns about the WCI recommendation that RECs have no role in mandatory GHG reporting and compliance protocols.**

#### Support for the Voluntary Renewable Energy Set-Aside

The inclusion of a VRE set aside in the draft rule is a natural outgrowth of CARB's efforts to spur clean energy progress in California. The VRE set aside will support the continued growth of voluntary purchases of renewable energy from both distributed generation and utility-scale facilities based within the state. These purchases are private funds going to expand clean energy generation in California. Given that this has been one of the bright spots in the California economy, policy choices to support continued growth only makes sense.<sup>1</sup>

As CARB has recognized, without such a VRE Set Aside, California clean energy producers wishing to sell into the voluntary market would be hampered by the fact they would no longer be able to correctly say that such purchases would lead to net emission reductions. There is demonstrated appetite amongst Californians for investment in voluntary action to reduce greenhouse gas emissions. The inclusion of a VRE Set Aside ensures that an in-state clean energy option continues to exist for these funds.

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<sup>1</sup> From 2007 to 2008, when state employment fell 1%, green jobs continued to grow 5%. *Many Shades of Green*, by Collaborative Economics and Next 10, December 2009.

[http://www.nextten.org/next10/publications/green\\_jobs.html](http://www.nextten.org/next10/publications/green_jobs.html)

This policy has garnered support from coalitions of dozens of diverse stakeholders: nonprofits groups, including environmental groups; and also public health groups like the American Lung Association of California; faith groups like Interfaith Power and Light; clean-energy industry stakeholders like Sun Power and SunTech; associations like the California Wind Energy Association and the Large-scale Solar Association; plus venture capitalists and the forward-looking Sacramento Municipal Utility District. Broad, diverse groups have come together to voice support for a Voluntary Renewable Energy Set-Aside in coalition letters submitted in 2008, 2009, and 2010.<sup>2</sup> Incidentally, this diverse coalition looks a lot like the one that helped defeat Proposition 23.

CRS submitted letters in 2009 and 2010 offering our view on the reason that a VRE Set Aside should be a priority.<sup>3</sup> We will not replicate these same arguments here, though we are happy to provide further information. Indeed, we understand that this is one of the areas of the cap-and-trade program that will be further defined in 2011, and we stand ready to assist in further defining the program.

#### Concerns about the WCI recommendation that RECs have no role in cap-and-trade accounting

In the spring of 2010, the Western Climate Initiative (WCI) announced a recommendation to Partner states and provinces that, in a nutshell, unbundled REC purchases by regulated entities in the electricity sector should not reduce their compliance obligation. May 27, 2010, CRS submitted a comment letter explaining the reasons that we believe this approach is misguided.<sup>4</sup> Not least, this counters accepted best practice that null power should be assigned a system power profile. And the approach would undermine the commonly accepted definition of RECs as containing the environmental benefits of the renewable energy generation that produced the REC. This hard-won—and now commonly accepted—definition has been enshrined in existing contracts and has facilitated impressive growth in the voluntary market over the past five years.

In response to concerns such as these, we understand that WCI's final recommendations for a VRE set aside were changed to explicitly suggest that specified null power be made be eligible for the set aside. From page 3: "WCI Partner jurisdictions should also consider requiring that renewable energy produced by VRE-eligible facilities in a non-WCI Partner jurisdictions and sold on a specified basis to the WCI Partner jurisdiction be counted as if those facilities were located in the WCI Partner jurisdiction."

We appreciate that perspectives such as those we have been offering appear to have been heard and responded to with this adjustment to the operation of the VRE Set Aside. Though we would prefer a

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<sup>2</sup> Not every group named in this paragraph signed on to every one of these letters. Each signed on to at least one of the letter submitted to CARB. Here are links to the two more recent coalition efforts:

2010:

[http://www.resource-solutions.org/pub\\_pdfs/nonprofit\\_and\\_clean\\_energy\\_coalition\\_7\\_7\\_2010.pdf](http://www.resource-solutions.org/pub_pdfs/nonprofit_and_clean_energy_coalition_7_7_2010.pdf)

2009:

[http://www.resource-solutions.org/pub\\_pdfs/nonprofit%20and%20clean%20energy%20industry%20coalition.pdf](http://www.resource-solutions.org/pub_pdfs/nonprofit%20and%20clean%20energy%20industry%20coalition.pdf)

<sup>3</sup> [http://www.resource-solutions.org/pub\\_pdfs/Center%20for%20Resource%20Solutions%20comment.pdf](http://www.resource-solutions.org/pub_pdfs/Center%20for%20Resource%20Solutions%20comment.pdf)

[http://www.resource-solutions.org/pub\\_pdfs/CRS\\_on\\_allocation\\_7\\_7\\_2010.pdf](http://www.resource-solutions.org/pub_pdfs/CRS_on_allocation_7_7_2010.pdf)

<sup>4</sup> [http://www.resource-solutions.org/pub\\_pdfs/CRS%20letterWCI%20052610.pdf](http://www.resource-solutions.org/pub_pdfs/CRS%20letterWCI%20052610.pdf)

more direct approach, whereby RECs do affect carbon accounting and null power carries associated emissions, in the absence of this first best outcome, we would support the inclusion of specified null power under the VRE Set Aside.

We do not believe that the draft cap-and-trade rule directly addresses this issue of REC accounting, however we understand CARB is planning to follow the WCI recommended approach. That approach did not include a participatory process, not even the more limited participation usually offered as part of WCI policy development. A whitepaper discussing options was released, but there was no proposed recommendation with an opportunity to comment.

Though we see no indication that CARB is on the cusp of committing to a policy that constructs an artificial wall between RECs and carbon accounting, we reiterate that we think this would be a bad idea even with the inclusion of null power in the VRE set aside. Such a policy would create new accounting challenges and complications for existing contracts. We would be happy to further elaborate.

In conclusion, we must emphasize our gratitude for all that CARB has accomplished with this draft regulation and all of the related AB 32 policies. That you achieved so much under difficult circumstances (not least mandatory furloughs) is a testament to the commitment to pursuit of the public interest of CARB staff at all levels.

CRS is always willing to offer our expertise as these policymaking processes continue to unfold.

Sincerely,

Jennifer Martin  
Executive Director  
Center for Resource Solutions