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***AB 32: Delivering on the Promise***

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Two weeks ago the Air Resources Board reaffirmed the Scoping Plan, including an expanded environmental analysis.

That vote was taken by some to mean a green light for cap-and-trade. In fact, it was a renewed affirmation of California's commitment to a balanced mix of measures: a comprehensive approach to cut emissions and accelerate California's necessary transition to a clean energy economy.

So, where are we now in our progress on the plan?

As no one in this room needs to be reminded, we now have a statutorily required 33% Renewable Electricity Standard;

It is becoming increasingly clear that an emphasis on alternative sources of energy is a core element of the Governor's vision for California, and he isn't afraid to use the 'C-word': Just a couple of weeks ago, he told a gathering of clean energy advocates in Las Vegas that "Climate change has become more obvious, and we see great opportunity in investing in wind, solar and energy efficiency, or 'negawatts.'"

It's true that ARB is no longer responsible for implementing the 33% RPS; and its structure has moved beyond compliance with AB 32. But the fact remains: Renewable energy is still a critical piece of our strategy for compliance with AB 32 and we will be counting GHGs reduced by the program. Failure to achieve the projected reductions under a renewable program means they will need to be accounted for elsewhere.

In the area of transportation, we are moving forward on our Clean Vehicle Standards. The Low-Carbon Fuel Standard is now in

its first year of operation. The goal is to develop cleaner fuels as alternatives to petroleum-based products.

We are also moving forward on Senate Bill 375, and are beginning to look at the first of the Sustainable Communities Strategies – plans developed by the local governments of the major metropolitan regions of the state to develop more walkable and livable towns and cities.

In addition to these key components, a cap-and-trade regulation provides two additional elements that are needed to support our efforts toward the development of a clean energy economy: a hard and declining cap on emissions, and a price on carbon.

The second, and final set of refinements to the program, will be released shortly, triggering 15 days of public comment. The regulation goes to the Board for final consideration in late October.

One recurring point of discussion in the cap-and-trade program, certainly among the utilities, relates to the revenue generated from the allocation of allowances in the first years.

Under the current approach, free allowances for the first few years of the cap-and-trade program will go to the companies that deliver electricity to consumers.

But the utilities will need to consign most of those free allowances to the market.

The use of the allowance value will be regulated for the benefit of customers by the Public Utilities Commission (for the Investor Owned Utilities) and the governing boards for the Publicly Owned Utilities.

But it seems clear that at some point the Legislature will want to weigh in: keep in mind, the size of the allowance auction grows and the value increases, from approximately \$500 million in the first compliance period to at least \$2 billion per year or more in the post 2015 period.

It seems reasonable to assume that the Legislature may have a very different perception as to what constitutes a benefit to the ratepayers than the PUC commissioners, or indeed, the governing board of a California municipal utility.

Finally, we are moving forward on regional cooperation under the Western Climate Initiative.

Building on a framework of cooperation developed over the past three years we are planning on linking up with three Canadian provinces – Ontario, Quebec and British Columbia – who are also in the process of developing their own emissions trading program. We also continue to work with all the other partners in the WCI – six other states and four Canadian provinces – on a range of shared approaches to sustainability.

There are also a number of other targeted strategies to cut emissions, and we have in place an extensive emissions inventory and reporting system.

All of these rules and regulations are important, and many are designed to achieve not just climate goals, but other energy, economic, public health and transportation related goals.

AB 32 is far more than an effort to reduce greenhouse gases. AB 32 is putting us on the path that California needs to be on anyway – for air quality, for energy security and for our own economic sustainability.

Despite our success thus far in getting in place the major pieces of the plan to implement AB 32, we are by no means guaranteed of the long-term success of this program, and in particular the role of cap-and-trade as a key mechanism to deal with climate change.

Why is that?

In order to be successful over the long-term, this program is going to have to deliver demonstrable benefits for Californians.

Benefits that we can see in terms of the environment and air quality, but also benefits that we can see in terms of economic development, job creation, cleaner energy and transportation infrastructure.

That is a real long-term challenge that not only ARB and other public agencies must understand and address, but also those entities that are under the cap.

And while it is commonplace to refer to you as ‘the regulated community’ in this endeavor, I see the utilities, both public and private, the energy businesses, and all those associated with the generation and transmission of electricity, as essentially partners in this effort to transform California’s economy for the better and clean up our air.

This is not an unprecedented approach. Let me give you an example of what success looks like: It looks like the cars that are now on the streets and highways of California.

Those cars are 99% cleaner than cars from the 1970s. That radical improvement did not come from the good heartedness of the auto manufacturers – although you’d think from their ads that they invented the concepts ‘green’ and ‘fuel-saving.’

No. Those improvements came from the balanced, but aggressive stand ARB took toward vehicle emissions over the past 40 years: tough standards that drive technology and demonstrably clean the air.

The success with cars came because consumers (not just in California, but in the country) have embraced this regulatory effort to push the automakers to deliver increasingly cleaner, more advanced vehicles.

And the public has embraced tough regulations not just because they drive down and will continue to drive down greenhouse gases and smog-causing emissions, but because they have resulted in an increasingly advanced fleet of cars that save consumers money, afford them more choices for types of vehicles, and continue to provide increased safety, reliability and comfort.

The general public ‘gets’ clean car regulations. Now they need to ‘get’ AB 32 and cap-and-trade.

We need to replicate our success with cars and develop the kinds of policies and program that make success in the energy sector visible and real.

So what does this mean? It means that consumers, especially people in the most disadvantaged communities in this state, are going to have to see and feel the tangible economic and public health benefits of programs like cap-and-trade, increased efficiency, and more renewable energy.

This means adding a social dimension to the often remote and recondite requirements to reduce Gigawatts, improve energy efficiency, develop distributed generation, and as one wag put it – make sure that our grid is smarter than a fifth-grader.

Let's look at how clean cars enter this equation.

More and more Californians will be plugging in their vehicles in the coming years. State studies indicate that upwards of one million plug-ins need to be on the street by 2020, but even if we don't hit that number, we are certainly looking to the mid-to-high hundreds-of-thousands – especially as gasoline continues to stay at \$4 a gallon or above.

This added load will clearly have some major implications for the grid. A smart grid – certainly one smarter than what we now have -- is truly essential if electric mobility is to succeed.

This is especially true if the dreams of using vehicles as storage devices for renewably generated electricity that otherwise could not be used at off-peak times is to be realized.

Plug-in vehicles provide new patterns of demand and new opportunities for an interactive relationship with customers—as well as new pressure for customers to self-generate.

The Plug-in Electric Vehicle Collaborative is currently working to flesh out these and other policy issues on a purely voluntary basis. Many of the utilities here today are members, along with a broad range of other stakeholders.

This Collaborative is a sign that while all the California utilities have active programs to support the new paradigm – there is a lot of discussion about developing 'charging infrastructure' – there is also a need for a broader, and a longer-term visioning process for IOUs –

and the POU's – to determine what their business will be in the future in a carbon-constrained world.

Certainly, among those challenges is the need to demonstrate to the ratepayers, and especially low-income communities, that AB 32, and the cap-and-trade program, benefits them.

This is going to take far more than a PR program to convince them that it is good for them – that they must 'eat their energy-efficiency spinach.' It is crucial for the California public to see, feel and experience how it benefits them.

From the ARB perspective, we are going to continue to focus on delivering on the expectation that AB 32 and other programs to cut greenhouse gases will have demonstrable air quality benefits.

This is our role and our mandate. That is why in large part ARB was charged with the assignment of implementing AB 32.

And we cannot be content to hold that the cap-and-trade program will not result in localized air quality impacts. In the long term, we must demonstrate that air quality, statewide and certainly in disadvantaged communities, is improving.

You are partners in this effort because everyone in this room, in one way or another, engages in the production, transmission, and sales of a product that literally 'hits home': electricity reaches into every home, every business. You touch Californians in a way that brings to life the interface between the policy on paper, and the policy in practice.

As I mentioned, this means more than a dry recitation of a specific number of Gigawatts reduced – although believe me, I understand fully the need for metrics. But this, in a sense, goes beyond those metrics alone. It means demonstrating how energy efficiency policies, alternative energy, distributed generation, and solar installations work in practice in the real world for all Californians.

Let me provide one example of how this might work: Last year, the ARB was instrumental in developing what we call Small Business Energy Makeovers.

We worked with local business associations, Business Improvement Districts, utilities (including So. Cal Edison, PG&E and SDG&E) and local elected officials, including mayors and county supervisors. The goal was to engage an entire neighborhood of small Main Street businesses – a notoriously difficult segment to reach with information about energy efficiency – and in a single day or two go from store to store to swap out lights, thermostats, install sensor switches – a range of improvements that can add up to lower energy bills.

In Lennox, just east of LAX, this effort was combined with events in the school to engage the children and teachers with real world approaches to energy efficiency.

Rather than a somewhat dour 'Direct Install' program, the event kicked off with a press conference and media coverage had the feeling of a fair. The result was palpable enthusiasm among the local businesses – and the politicians, I might add – for these energy efficiency programs. The slogan was “AB 32 works for Small Businesses.”

I believe that this kind of approach, also carried out in Sacramento, Fresno and San Diego, demonstrated that while the policies and targets for energy efficiency may be established at a distant statewide perspective, it takes a village to make them work and bring them to life.

It requires an effort that sees the world from the perspective of neighborhoods and communities, so that every business and household understands that they are benefitting from AB 32 – and that they are part of the solution, too.

A few weeks ago I had the honor of attending an event at the Convention Center in Washington, D.C. There, the President stood side-by-side with the country's major auto manufacturers and announced a new round of standards that will make vehicles cleaner, more efficient, and provide major economic savings for consumers.

In doing so, he explicitly acknowledged the roles that California played in making this happen – a statement that generated a

generous round of applause (and not only from the Californians who were there).

It's not an overstatement to say that the national car standards, of which there have now been two rounds, are in large part the result of California's leadership and success in fighting for, developing and implementing a policy that delivers tangible environmental, public health benefits, along with economic benefits for consumers.

Our challenge now is clear. If we are serious about delivering on the promise of AB 32 and moving toward a clean energy economy, we must work to do the same thing in demonstrating tangible benefits of programs like energy efficiency and, yes, cap-and-trade.

The victory of defeating Prop. 23 showed that the California public supports us in principle. Now, with your help, they must support us in practice.

Thank you.

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