

September 22, 2010

Lesley McBride, Board Chair
Sacramento Area Council of Governments
1415 L Street, Suite 300
Sacramento, CA 95814

Mary Nichols, Chair
California Air Resources Board
P.O. Box 2815
Sacramento, CA 95812

Re: SB 375 Proposed Regional GHG Reduction Targets

Dear Chairs McBride and Nichols:

Thank you for the opportunity to comment on an important part of California's drive forward toward reducing its GHG emissions as required by AB 32 and Governor Schwarzenegger's Executive Order S-3-05. SMUD supports the SB 375 proposed Regional GHG Reduction Targets published in August, and encourages ongoing collaboration to achieving and even exceeding these targets. We believe that the targets are clearly achievable, and that exceeding the targets is also possible. SMUD supports the SB 375 targets because achieving or exceeding the targets will have the following benefits:

- Reduce the cost of the carbon reductions that SMUD has committed to accomplishing in the electricity sector, thereby reducing our customers' costs,
- Avoid transferring additional reduction obligation to the capped sectors, such as the utility sector,
- Ease the increase in load that SMUD will experience as the electrification of transportation occurs,
- Reduce customer electricity use, as urban, infill housing generally uses less electricity than suburban homes, and
- Increase the efficiency of our distribution system, allowing for potential cost savings and alleviating pressure to increase electricity rates.

SMUD believes that it is extremely important to develop and implement strategies to reduce greenhouse gas emissions from the transportation sector. Greenhouse gas emissions associated with on-road transportation represent the largest source of emissions in our region (48.3%)¹, an even higher percentage than the California average (41%). The Sacramento Area Council of

¹ Greenhouse Gas Emissions Inventory for Sacramento County, Prepared by ICF Jones & Stokes, June 2009

Government's (SACOG)'s Regional Blueprint Project, with its broad public support and emphasis on "smart growth," multi-use and transit-oriented development, provides a solid foundation from which to tackle the challenges inherent in achieving emissions reductions in the transportation and land use sectors. The SB 375 Proposed Targets build on this solid foundation.

Background:

SMUD has enormous respect for the very professional work of the Sacramento Area Council of Governments, which supports our service territory and has received national recognition for its development of the Sacramento Region Blueprint Project. We congratulate and thank SACOG's Executive Director, Mike McKeever, for his leadership of the Regional Targets Advisory Committee, and for the very high quality work that SACOG staff consistently delivers. Indeed, SMUD's Strategic Directive #13, related to Economic Development, specifically states support for the Sacramento Region Blueprint Transportation and Land Use Study planning principles and preferred growth scenario. We also recognize the hard, excellent work of the ARB staff in the development of these Proposed Regional Targets.

SMUD has a long history of investment in energy efficiency and renewable energy initiatives, leading to a significant reduction in SMUD's carbon emissions rate. Even from this relatively low initial emissions rate, SMUD's Board-established targets for greenhouse gas emissions reduction are among the most aggressive in the electric utility industry, and are guiding us on a path to reduce our emissions to 30% below 1990 levels by 2020, and 90% below 1990 by 2050. Our Board's direction also requires that these reductions be delivered while assuring reliability of our system, minimizing environmental impacts on land, habitat, water and air quality, and maintaining a competitive position relative to other California electricity providers.

Our customer base has demonstrated its awareness of the challenges presented by climate change, and support for these reduction targets and other actions. An April 2010 survey of our commercial customer base, conducted by an independent market research firm, revealed that 90% of our customers feel at least somewhat informed about climate change, and more than half (58%) feel it is a big or moderate problem. Most had already taken specific actions to reduce their impact on climate change, and a very large percentage of these commercial customers (82%) indicated they were willing to take additional actions. Finally, while respondents believed that responsibility for addressing climate change is shared among government, utility companies, the business community and the general public, they assigned the most responsibility to government and utilities. Despite the continued economic downturn, these results are consistent with a 2008 survey SMUD conducted of its residential customers, in which 2/3 of SMUD customers indicated that global warming was very important to them personally, and more than 2/3 thought SMUD should be doing more to deal with climate change. We believe that these results indicate solid public support for leadership from local governments and utilities to reduce emissions in our local area.

Comments on Draft Targets:

As you are well aware, AB 32 requires that California achieve 1990 levels of GHG emissions by 2020, and Governor Schwarzenegger, with Executive Order S-3-05, committed the state to further reductions to 80% below 1990 levels by 2050. Any growth in emissions from land use, transportation, or other sectors – even if that growth represents reductions from ‘business as usual’ – implies that GHG emissions will have to be reduced further in other sectors, such as the utility sector, to achieve the economy-wide cap.

Even within the sectors that are expected to be in the cap and trade structure, this is an issue. Current draft ARB plans do not include the transportation sector in the cap and trade until 2015, a full three years after the utility and industrial sectors begin the reductions envisioned in the trading system. This means that any growth in the transportation sector, including growth attributable to increased population and Vehicle Miles Travelled (VMT) as affected by land use policies, will be ‘absorbed’ within the cap and trade structure and would likely lead to greater emission reductions required of all sectors in that structure. In the 2012-2015 timeframe, transportation sector emissions growth will not be constrained by annual targets under the cap and trade, and this entire potential growth will be absorbed into the cap and trade structure for subsequent reductions. Even after 2015, when the transportation sector will also be subject to annual cap and trade reduction targets under current plans, additional growth in emissions from land use policies will have to be offset by reductions in the capped sectors to meet the annual and overall 2020 targets. Hence, it is eminently fair and quite important to set land use targets that will result in reasonable net reductions, to avoid transferring reduction obligation to the capped sectors, such as utilities.

Very robust targets in the land use and transportation sectors will benefit SMUD’s customers in other, even more direct ways. Since these targets will provide incentives for more compact land use patterns and increases in multi-family and mixed-use housing opportunities, over time our customers will require less electricity, as multi-family dwellings generally use half the electricity of single family homes. This trend can also be expected to increase the efficiency of our distribution system, and offer potential savings in O&M costs that would otherwise escalate, alleviating pressure to increase electricity rates.

In addition, and quite significantly in the long term, higher targets are more likely to result in the kinds of regional land use and transportation system improvements that will yield reductions in VMT in the region. This has been demonstrated in Washington and Oregon, which each saw reductions in per-capita VMT between 1990 and 2007 as a result of “strong and consistent public policies to encourage the use of alternatives to vehicles and to promote patterns of development that reduce dependence on cars”.² While perhaps not immediately obvious, electric utilities like SMUD have a strong and growing interest in VMT reduction. The electrification of the transportation sector offers one of the best opportunities for societal reductions in greenhouse gas emissions, but it simultaneously increases the challenge faced by electric utilities already

² Too Much Pollution – State and National Trends in Global Warming Emissions from 1990 to 2007, Environment California Research & Policy Center, Fall 2009.

absorbing the transition from fossil generation to renewable energy sources. Smart land use policy will encourage the electrification of transportation by reducing commute lengths to distances that can be accommodated by current and planned battery technology and charging infrastructure, thus helping to control the costs of that transition and make it more successful and enjoyable for consumers. Fewer and shorter trips over time will ease the increase in load that SMUD will experience as the electrification of transportation continues, and help moderate the increased cost of our energy supply as we simultaneously work to meet more stringent RPS targets.

This is especially important in the Sacramento region, because of the current financial and operational constraints faced by Regional Transit (RT), the largest transit provider in the area. Many of the scenarios contained in SACOG's Metropolitan Transportation Plan rely on expansions in RT infrastructure, service offerings and ridership which may not be feasible, given the agency's current financial health. Strong regional targets will help maintain the focus on the critical role that RT plays in reducing VMT, and spur the dialog and action necessary to ensure their continued contribution to emissions reductions.

We recognize that land use changes are very slow to implement, and will require cooperation and support from the multiple public and private entities. Targets that truly demonstrate leadership in this sector are thus particularly important to ensure a meaningful contribution to overall reductions in a reasonable timeframe. The proposed targets for the Sacramento region, a 7% reduction in per capita emissions by 2020 and a 16% reduction by 2035, represent a good start. While we believe that higher targets are achievable (through a continued shift in funding away from roads and towards transit, and a more rapid implementation of transportation demand management strategies, for example) we encourage CARB to adopt the targets recommended by staff in this important initial process. We encourage both CARB and SACOG to closely monitor the impact of these targets on actual emissions reductions over the initial implementation period, provide more information to the public about the actual emissions reductions that result from the proposed targets, and adjust the targets upward as appropriate to achieve additional feasible net reductions from the land use and transportation sectors.

It is our hope that the initial targets adopted pursuant to SB 375 will demonstrate leadership in the evolution away from the fossil-based economy, and encourage all the sectors in the region to do their part to meet the state's GHG reduction goals. Thank you for the opportunity to comment on the proposed targets.

Sincerely,

John DiStasio
General Manager