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Re: Sacramento Municipal Utility District's Comments to Proposed Amendments to the Cap-and-Trade Regulation and MRR

The Sacramento Municipal Utility District (SMUD) appreciates the opportunity to comment on proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms (Cap-and-Trade Regulation), and on proposed Amendments to the Regulation for the Mandatory Reporting of Greenhouse Gas (GHG) emissions (MRR), which are scheduled for adoption by the Board on October 24, 2013. Our principal concern is in duplicative reporting and duplicate compliance obligations imposed on SMUD because of its unique position as an owner/operator of a "publicly-owned natural gas utility" under the MRR, which serves solely its natural gas power plants. SMUD recommends that the Board direct ARB staff to investigate and return to the Board with these recommended minor changes to the Cap-and-Trade Regulation, as outlined by SMUD below.

I. SMUD's Previous Comments on the Mandatory Reporting Regulation Found Duplicate and Unnecessary Requirements.

On July 10, 2013, SMUD commented on the issue of duplicate reporting under the MRR, which is attached hereto for reference. SMUD explained at that time that it owns and operates roughly 76 miles of local gas pipeline that supplies natural gas to four SMUD power plants ("SMUD Local Pipeline System"). These power plants are covered Electricity Generating Units ("EGUs") subject to MRR reporting and Cap-and-Trade compliance obligations. SMUD reports emissions on the EGUs' behalves and likewise receives a direct allocation of GHG allowances on their behalves. SMUD is not a gas fuel supplier to any other industrial facilities or covered entities under the Cap-and Trade Program. However, because the four power plants are "owned" by joint powers authorities ("JPAs"), of which SMUD is the controlling party, and "buy" gas from SMUD, the JPAs meet the ARB's literal definition of "end user" under the MRR. Accordingly, SMUD is technically a "publicly-owned natural gas utility" and "LDC" under the MRR, and

must report deliveries of natural gas to the plants, and potentially hold compliance instruments for those supplies. Given that SMUD makes all of its deliveries on a pass-through basis to its EGUs, and that deliveries to these end users are subtracted before calculating any compliance obligation, SMUD should have no separate gas LDC compliance obligation under the AB 32 Cap-and-Trade program. Indeed, during a conference call with ARB on September 26, 2013, SMUD was assured by ARB staff that this is the case for 2012 emissions.

However, SMUD remains concerned that different reporting methods for SMUD's EGUs and the SMUD Local Pipeline System could result in a variance in reported emissions on paper that do not exist in reality. The resulting discrepancy could lead to overstatement of a compliance obligation for the pipeline. For example, SMUD reports emissions from its Cosumnes Power Plant (CPP) EGU pursuant to Subpart D of 40 CFR Part 98. To calculate GHG emissions from this facility, SMUD measures the volume of gas flowing into CPP's electric generating system (in MMscf), calculates the fuel heat input (in MMBtu), applies the GHG emission factor, and, where applicable, the global warming potential. Digester gas, which is supplied to CPP from the Sacramento Regional Wastewater Treatment Plant (SRWTP), and biomethane from out-of-state sources are used to supplement the natural gas fuel. Emissions from the biogas sources are deducted from CPP's total emissions. The result is that total covered emissions include only emissions from all natural gas supplied to the plant expressed in carbon dioxide equivalent, exclusive of any emissions from biogas.

By contrast, SMUD reports fuel use for the Local Pipeline System in accordance with Subpart NN of 40 CFR Part 98. Under this regulation, SMUD receives a single heat energy value for the gas delivered at the pipeline from PG&E, as metered in dekatherms at the Winters Interconnection, which is then theoretically allocated to its power plants per fuel volume ratio. The fuel volumetric and heat input values for the pipeline versus the values for the four plants will not match due to slight differences between meters (SMUD's multiple plant meters and one PG&E revenue meter), and potentially in how the fuel is allocated among the plants. More significantly, reporting under Subpart NN does not account for the different compliance obligation of biomass-derived fuel, which will cause a discrepancy between the two results. SMUD believes that these differences in methodologies led to an additional 81,000 metric tons CO_{2e} reported from the SMUD Local Pipeline System in 2012 over the aggregate of emissions from the four power plants.

In previous comments, SMUD has objected that duplicate reporting of pass-through natural gas to its EGUs is overly burdensome and causes unnecessary expense in terms of staff time and verification costs. This is still true. However, the bigger problem is the potential for a compliance obligation on the SMUD Local Pipeline System resulting from the dissimilar reporting methodologies between the pipeline and EGUs. To date, these

differences are relatively small and explainable. However, confusion could evolve over time.

II. SMUD Recommends that the Board Direct ARB Staff to Develop a Minor Amendment to the Cap-and-Trade Regulation to Prevent a Duplicate Compliance Obligation for SMUD's Unique Circumstances.

SMUD is recommending a slight modification to the Cap-and-Trade Regulation to reduce SMUD's exposure for this unique situation. In particular, SMUD recommends adding a new subsection (c)(5) to Section 95852 of the Cap-and-Trade Regulation, as follows:

(c) Suppliers of Natural Gas. A supplier of natural gas covered under sections 95811(c) and 95812(d) has a compliance obligation for every metric ton CO₂e of GHG emissions that would result from full combustion or oxidation of all fuel delivered to end users in California contained in an emissions data report that has received a positive or qualified positive emissions data verification statement or for which emissions have been assigned, less the fuel that is delivered to covered entities, as follows:

(5) Publicly-owned natural gas utilities that supply natural gas to covered entities which include the utility shall not have a compliance obligation if the utility can demonstrate that its deliveries are made exclusively to the covered entities.

The suggested amendment of the Cap-and-Trade Regulation would be very narrow in scope because it would apply to just publicly-owned natural gas utilities that distribute gas on a pass-through basis. It would also be limited to the situation where all gas supplied by the pipeline is to covered entities, which already report and hold compliance instruments. Most importantly, the proposed amendment would do away with the potential to saddle an electric utility with duplicate liability for a compliance obligation as a result of an internal, pass-through, pipeline system.

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SMUD again appreciates the opportunity to comment on the proposed modifications to the Mandatory Reporting Regulation and urges consideration of the comments described above.

/s/

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Attachment: SMUD July 10, 2013 Comments (LEG 2013-0592)
cc: Corporate Files

Attachment:
SMUD July 10, 2013 Comments



July 10, 2013
LEG 2013-0592

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Re: Sacramento Municipal Utility District's Comments on Potential Updates to the California Regulation for the Mandatory Reporting of Greenhouse Gas Emissions

SMUD appreciates the opportunity to comment on the topics discussed at the June 26th Mandatory Reporting Workshop. SMUD has two comments about the potential updates to the Mandatory Reporting Regulations ("MRR"). In particular, SMUD is concerned about the expense and potential inconsistencies from duplicative reporting requirements imposed upon it because of SMUD's unique circumstances as an operator of a "local distribution company" or "LDC" under the MRR that only serves its related power plants. SMUD already reports the actual greenhouse gas ("GHG") emissions from the power plants connected to its internal pipeline system, so reporting the potential GHG emissions from the same quantities of pipeline gas is duplicative and causes needless burden and expense. SMUD is also recommending that ARB staff not propose certain changes to existing reporting and verification deadlines because the accelerated dates proposed by staff would conflict with GHG reporting deadlines to USEPA.

I. The ARB Should Remove the Requirement for Utilities to Report Natural Gas Volumes Delivered as a Pass-Through to their Power Plants.

SMUD owns and operates roughly 76 miles of gas pipeline, which supplies natural gas to four electricity generation/cogeneration facilities that have compliance obligations ("SMUD Local Pipeline System"). These power plants are owned by joint powers authorities ("JPAs") that "purchase" all of the natural gas delivered in the Local Pipeline System. As a result, the JPAs meet ARB's definition of "end user" under the MRR. And, since SMUD physically delivers natural gas to these power plants, SMUD is technically a "publicly-owned natural gas utility" and LDC under the MRR. However, what distinguishes SMUD from other natural gas LDCs is that all of SMUD's end users are covered Electricity Generating Units ("EGUs") subject to MRR reporting and compliance obligations; and SMUD reports on their behalf and acquires through corporate association all CCA obligations. SMUD is not a fuel supplier for any other industrial facilities not directly connected to SMUD's pipeline. Given that SMUD makes all of its

deliveries on a pass-through basis to obligated EGUs, and that deliveries to these end users are subtracted before calculating any compliance obligation, SMUD should have no separate natural gas LDC compliance obligation under the ARB Cap-and-Trade program.

According to the Initial Statement of Reasons (“ISOR”) written by ARB in support of LDC reporting, this provision (then codified at Cal. Code Regs., tit. 17, § 95101, subd. (c)(7)), is necessary to “provide information on natural gas supplied to support the determination of their compliance obligation under the ARB cap-and-trade program.” (ISOR, October 28, 2010, p. 139) However, if ARB knows that SMUD does not have compliance obligations as a fuel supplier under the Cap-and-Trade program, then ARB should not subject SMUD to a needless and expensive reporting process.

In the June 26th Workshop, ARB staff proposed a change to the MRR to relieve Natural Gas Fuel Suppliers receiving gas from upstream LDCs that simply pass-through a portion of the gas to nearby facilities from reporting as “intrastate pipeline” operators. (Slide 19) The SMUD Local Pipeline System occupies a similar place because SMUD uses these facilities solely to transport or pass-through natural gas to its nearby EGUs. All of the gas SMUD transports is accounted for through emissions reported for these power plants pursuant to Subpart D of 40 CFR Part 98. If the ARB is considering exempting such “facilities” from reporting as intrastate pipelines, then it should give equal consideration to SMUD from reporting as an LDC. ARB is receiving the actual, verified emissions data from the passed through gas, and should not require a mass balance calculation to indirectly derive what is reported directly.

In addition, ARB staff is recommending complementary revisions to the MRR to require LDCs to report volume and customer data for all “redeliveries” of gas to other LDCs and pipelines. (Slide 18) If ARB adopts this change, then PG&E will report the volumes of pipeline gas SMUD acquires at the Winters Interconnection, and passes through to the SMUD EGUs. ARB can get a complete picture of natural gas usage in the state without requiring SMUD to report the same information. Additionally, ARB will have verified data from PG&E to corroborate or cross-check the volumes against the total of the verified emission reports of the EGUs with the compliance obligation. SMUD’s existing LDC reporting obligation provides little benefit to ARB because it adds no new information to what ARB already receives, while necessitating significant SMUD staff time and verification expense. Thus, SMUD recommends that the proposal on Slide 19 be extended to include pass-through pipeline facilities.

It should be noted that because of the numerically large quantities of reported CO₂ (with the implied precision), rounding errors will always produce an apparent small difference between the sum of SMUD’s four covered facilities and the reported pipeline CO₂ throughput. This “rounding” difference will be exacerbated by the presence of or accounting for biogas/biomethane as it contributes to CO₂ computation methodology for pipelines compared to EGUs. For example, if the sum of SMUD’s four EGUs’ obligation is 2,000,000 MT’s CO₂e, then cumulative rounding error of only 1% produces a 20,000

MT CO₂e “apparent” difference. Some, but not all, of this numerical difference is due to excessive apparent precision in reporting can be mitigated by a *pro rata* adjustment of EDU emissions using totalized CityGate BTU values. A larger and irreconcilable issue (at the implied apparent precision) is the difference in methodology for reporting of biogas/biomethane.

II. The Proposed New Reporting and Verification Deadlines Pose Problems for Accurate Reporting.

The current deadline for reporting on EGU facility emissions is April 10th. The deadline for SMUD reporting as an Electric Power Entity (e.g., power transactions) is June 1st. The verification deadline is September 1st.

Our understanding from the June 26th Workshop is that ARB is proposing to advance the reporting dates forward by two weeks, including the verification deadline. This would put the facility reports due date on or around April 1st, the Electric Power Entity deadline at May 15th, with verification due on or around August 15th.

SMUD is concerned that accelerating these deadlines may pose unnecessary difficulties. In particular, the annual 40 CFR Part 98 deadline for reporting under the Federal Greenhouse Gas Reporting Program is already due on March 31st each year.

Because SMUD collects emissions from dozens of sources, moving the ARB dates forward to coincide with Federal reporting would create a heavy burden on staffing resources. Staff must analyze and format the data, complete the required EPA worksheets, and certify and quality assure the entries. Part 98 reporting entails a significant level of effort in order to deliver data with a high degree of accuracy. If the ARB’s GHG reports are due at the same time, our resources will be strained, and the accuracy and integrity of the emissions data may be compromised. In addition, the output from 40 CFR Part 98 is a required element for SMUD’s facility reports to the ARB, which means that Electric Power Entities such as SMUD must complete Part 98 calculations before they can calculate and report under Section 95122. Thus, if ARB were to impose simultaneous deadlines, it would have the effect of advancing the Federal deadline and reducing the time SMUD has to report at the Federal level. SMUD suggests it is better to stay the course and not interfere with Federal reporting requirements.

With regard to verification, the present deadline of September 1st has already posed various challenges for SMUD since this involves coordinating efforts from diverse workgroups within the organization, including plant staff, whose availability is limited. Additionally, SMUD must consider the third-party verifier’s accessibility, which is likewise constrained by multiple commitments to other clients. The scheduling for independent reviews, site visits, etc., are frequently out of SMUD’s control, so advancing the

verification deadline to August 15th would squeeze SMUD and other Electric Power Entities who all must retain a qualified verifier to meet the same deadline.

Beyond SMUD's objections to the undue administrative burden the proposed deadlines will place on its resources, we are committed to maintaining the degree of accuracy and integrity of our emissions data and are concerned that the deadlines will be detrimental to this effort. Thus, in the interest of ensuring accurate and timely reporting, SMUD respectfully asks the ARB to re-consider these proposed revisions to the MRR.

SMUD again appreciates the opportunity to comment on the proposed modifications to the Mandatory Reporting Regulation and urges consideration of the comments described above.

/s/

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