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June 26, 2009

**VIA E-MAIL: CCWORKSHOPS@ARB.CA.GOV**

Mr. Manpreet Mattu  
Office of Climate Change  
California Air Resources Board  
1001 "I" Street  
P.O. Box 2815  
Sacramento, CA 95812

**Re: Sacramento Municipal Utility District's Comments on Reporting and Verification in a Cap-and-Trade Program Workshop of June 5, 2009**

Dear Mr. Mattu:

Sacramento Municipal Utility District (SMUD) appreciates this opportunity to provide feedback on the mandatory reporting rules and how they may need to change to harmonize with the Western Climate Initiative ("WCI") and prepare the State for the cap and trade program. As a long-time voluntary reporter to the California Climate Action Registry and the Energy Information Agency ("EIA") 1605b programs, we have had many opportunities to improve internal reporting mechanisms and to work with reporting programs to improve their accuracy, transparency, and ease of use. With that background, and with our first year of mandatory reporting to the ARB complete, we offer these comments in an effort to improve the ARB's reporting requirements for the cap and trade program and increase consistency with the WCI.

**1. Electricity Transaction Reporting Requirements Should Be Simplified and Clarified to Reduce Reporting Burden and Enhance Accuracy.**

SMUD recently completed its first round of electricity transaction reporting and found that the reporting process was far more burdensome than any of the prior voluntary reporting we have done for EIA, or the California Climate Action Registry. In particular, the reporting of electricity transactions, and the specific requirement to report unspecified transactions by counterparty, forced the use of transaction databases that

were not intended to be used to track emissions, and created discrepancies with the audited financial databases that have been used in prior years. Based on this experience, SMUD has the following recommendations for improving the reporting of electricity transactions:

- A. *Reporting of unspecified emissions by Counterparty should no longer be required.* Unspecified transactions are transactions that cannot be tied back to a specific source. These transactions can occur very close to the source of generation, or they can occur through a chain of market transactions completely separating the energy from the source or region in which it was generated. In either event, the underlying source of these transactions cannot be defined with our current electricity tracking system. Reporting the contractual counterparty from whom the unspecified purchase occurred does not provide any additional information that is useful in terms of understanding the underlying emissions profile associated with the generation of electricity. On the other hand, it does introduce a substantial, additional reporting burden on SMUD by requiring the sorting and aggregating of tens of thousands of transactions into dozens of line items in the ARB reporting form. Given the inability to track this energy back to its source using counterparty information, and the different potential naming conventions for counterparties, it is not clear whether there is any benefit to the ARB in collecting this information.
- B. *Renewable energy purchases should be defined by WREGIS Certificates or Renewable Energy Attestations, not NERC Tags.* The ARB should make clear in its regulation that WREGIS certificates (or Renewable Energy Attestations for plants that have not yet been brought into WREGIS) should be the basis for identifying renewable energy purchases. WREGIS uses revenue-quality metering to create WREGIS certificates and an additional automatic validity check to measure the actual amount of renewable energy generated. It is an accurate and reliable system for accounting for all renewable energy generated and for retiring or consuming the green attributes. However, because some CEC eligible renewable contracts match WREGIS certificates to imported unspecified electricity, use of tracking mechanisms like NERC tags or settlements data may not fully account for the actual amount of renewable energy that has been purchased by a retail provider. The ARB should direct reporters and verifiers to ensure that the amount of reported renewable energy is equivalent to the amount of WREGIS certificates (and renewable energy attestations) that the reporting entity has retired.
- C. *NERC tags should only be used to identify imports from outside of California, not specified purchases.* NERC tags provide information on the amount of energy that flows between two balancing authorities. While in many cases they account for the actual energy purchased from a specified resource, in some cases they do not. Instead, third party, audited financial accounting information, which documents what was paid for, should be the basis of reporting specified purchases. The use of NERC tags introduces complexities in identifying underlying specified sources of

energy, in particular when combined with transmission swap contracts where energy is sold and bought back from an entity with transmission line control.

**2. Interpretation and standard practices for the use of settlements data and electricity transaction databases to report emissions will need to be ironed out before penalties should be imposed. The ARB should wait until the third reporting cycle to impose reporting penalties in order for reporters and the ARB to gain a clear picture of how to resolve these discrepancies.**

Slide 22 of the Staff Presentation of June 5<sup>th</sup> notes that the ARB and WCI settlements processes for resolving Reporter/Verifier differences of opinion are the same. Therefore, there appears to be no reason to try to conform the two processes.

However, during the workshop there was lively discussion about the Reporter/Verifier settlement process itself. This debate exposed some potentially significant issues. The ARB Verification Protocol appears reasonable and contains well-defined thresholds for determining significant differences of opinion between Verifier and Reporter. There remain, however, questions about how well the settlement process will work in practice. This process should be tested over time before it is used to impose penalties.

Although SMUD has years of experience with GhG accounting and has had our entity-wide emissions verified six times in six years by independent third parties, we nonetheless had considerable difficulty determining the proper reporting for thousands of electricity transactions in this new ARB Reporting Tool. After two or three years of ARB reporting, and with a better understanding of the appropriate databases and their shortcomings or strengths for GhG reporting, subjective judgments in GhG reporting will become standardized. However, the large number of new reporters and transactions expected in the coming years will sorely tax our collective abilities to conform accounting standards in a timely and equitable fashion.

One likely administrative snarl pivots on the availability of enough technically trained ARB Staff to respond to the large potential of settlement challenges. Another is the liability for potential fines pending resolution of differences of opinion between Reporters, Verifiers and ARB. Also, an important question is how will fines be assessed, if at all, in cases involving good faith errors or valid misunderstandings of transaction data? Until two or three cycles of verification have occurred these will be significant and divisive issues. SMUD suggests that the settlements process and compliance process be considered together in light of the likely inadequate initial public education level, likely emergence of new issues, and the likely high initial case load. Perhaps this could be the subject of a workshop.

**3. The ARB should maintain the reporting requirements for separating CO<sub>2</sub> in combined heat and power (CHP) systems as an efficiency metric and to ensure the correct policy signals are sent with respect to CHP systems.**

Current ARB reporting requires that GhG emissions from the stack of a large CHP plant be partitioned into a portion attributed to making electricity and a portion attributed to useful process heat. WCI allows aggregation into a single CHP source.

If it were not necessary to differentiate between CO<sub>2</sub> produced in power plants from that emitted by industrial facilities, then an upstream reporting system for all fossil fuels would be much simpler. However, because society pays for goods and services differently in different economic sectors, we go to great lengths to separate sectors. That is the fundamental argument in play with the need to partition CHP GhG emissions by sector.

SMUD strongly recommends against the expedient assumption that partition by energy end user is not worthwhile. Availability of distinct emissions data will be important public information for measuring the effectiveness of CHP policies, for clearly delineating emissions liability between the owner of the CHP facility and the heat host, and potentially for equitable allocation of emission allowances between electricity and industrial economic sectors.

CHP is a useful efficiency measure because, correctly designed, more electricity and process heat can be made from the same amount of fuel than can be made if the electricity and process heat were produced using separate combustion devices. However, it is not generally true that the amount of fuel used in a modern CHP facility would be the same whether the equipment was designed to just make electricity or make electricity and process heat.

Fortunately, the ARB emissions accounting rules give us an agreed upon method to calculate the GhG emissions that are attributable to making electricity and those attributable to process steam. CEMS alone can not give the answer, just as CEMS can not distinguish between CO<sub>2</sub> produced from biomass vs. fossil fuel. Additional input from the CHP facility is needed, and the annual GhG report is the place to do that.

Assuming that the heat host is always the owner of the electricity generator is a common misconception. In fact, an electric utility is very often the owner of the generator and in almost all modern plants a utility takes electricity from a CHP plant not needed by the heat host. Unless we keep track of, and separately report emissions associated with both electricity and process heat at CHP facilities the opportunity to inform and monitor the effectiveness of CHP policy will be lost, and proper accounting of allowances attributable to the electric sector will be inaccurate. Further, fair allowance allocation policy, which relies on an accurate understanding of

splits of emissions responsibilities between economic sectors, will be precluded without this data.

For these reasons, SMUD recommends retaining ARB's current mandatory reporting method for CHP facilities.

**4. Reporting of Emissions for Transportation and Natural Gas Fuels should begin prior to 2012 to enable imposition of a revenue neutral fee on these sources.**

SMUD has commented previously on the need to impose a pre-cap, carbon fee on the uncapped transportation and natural gas distribution sectors in order to minimize the impact of these sectors when they enter the cap and trade program. In order to facilitate the imposition of such a revenue-neutral fee, the ARB will need to begin collecting emissions information from these sectors prior to 2012. SMUD strongly encourages ARB to require such reporting to preserve the option to assess a fee. Leaving emissions from these sectors unabated during the first compliance period risks significant price disruption of the market in 2015, and also threatens the ability of the State to achieve its 2020 targets. Reporting from these sectors forms the foundation for such a fee assessment.

**5. Summary**

SMUD appreciates the opportunity to provide comments that we hope will help the ARB improve its mandatory greenhouse gas reporting requirements. Simplifying the electricity transaction reporting requirements will reduce the reporting burden, verification costs, and administrative costs, while improving overall reporting accuracy. SMUD strongly urges the ARB to simplify where it can. SMUD also recommends a delay to the implementation of penalties on this component of reporting as Reporters, ARB staff, and Verifiers work through the initial reporting rounds. SMUD encourages the ARB to continue to require separate reporting of CO<sub>2</sub> from CHP plants for their steam and electricity products to ensure that policy makers and CHP participants have the needed data to make wise policy decisions. Finally, SMUD requests that

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reporting of emissions from the transportation and natural gas sectors begin as soon as possible to enable imposition of a fee on these sectors beginning in 2012.

Respectfully submitted,

/s/

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cc: Corporate Files