SAN FRANCISCO PUBLIC UTILITIES COMMISSION

1155 Market St., 11th Floor, San Francisco, CA 94103 • Tel. (415) 554-3155 • Fax (415) 554-3161 • TTY (415) 554.3488

December 9, 2010

Kevin Kennedy
Assistant Executive Officer
CALIFORNIA AIR RESOURCES BOARD (ARB)
Via e-mail

COMMENTS OF THE SFPUC ON THE USE OF THE JOINT UTILITIES GROUP (JUG) PROPOSAL TO ALLOCATE GHG ALLOWANCES TO THE ELECTRIC SECTOR UNDER THE ARB'S CAP-AND-TRADE PROPOSAL

Dear Mr. Kennedy;

The San Francisco Public Utilities Commission (SFPUC) is writing to express our serious concerns about both the process and proposed results of the Joint Utilities Group's (JUG's) allocation of GHG allowances to the electric utility sector and to offer several recommendations to address this concern.

The SFPUC provides almost 1 million MWh of electric energy per year to San Francisco's municipal buildings and facilities and selected other customers. The SFPUC has amongst the lowest greenhouse gas (GHG) footprint (13 pounds per MWh) of any public utility in California. This is significantly less than the 600 to 1,700 pounds per MWh of GHG emissions for almost all other California utilities. (See Table #1)

Problems with the JUG Proposal

Under the JUG proposal, the SFPUC, despite having the lowest GHG emissions of any major California utility, could find itself in the paradoxical position of needing to buy allowances to meet its demand during times of drought conditions and to meet future load growth.

The JUG proposal represents a significant departure from the ARB's original proposal to allocate allowances based on a combination of utility sales and emissions, an allocation method much more consistent with rewarding past actions to reduce GHG emissions. The JUG proposal fails to properly recognize the SFPUC's low GHG footprint.

At the same time, the JUG proposal will be allocating essentially all of the GHG allowances based on emissions[1], thus favoring those utilities that have had the highest GHG emissions, and would allow these same utilities to sell excess allowances and use them to either reduce their rates or fund other GHG-reducing activities.

As compared to a fair allocation that recognizes San Francisco's historically low GHG emissions, under the JUG proposal, San Francisco is foregoing potential revenue from allocations it should receive. Having San Francisco buy allowances while high emission utilities are relieved of that cost is not equitable, and in effect would have San Francisco subsidizing energy efficiency and renewable energy investments by electric utilities that chose to use much higher GHG-producing fuel sources, including significant amounts of coal. Given that the resident time for GHG in the biosphere is 50 to 100 years, the SFPUC has already made a significant contribution toward meeting California's GHG reduction goals.

This outcome is not consistent with the ARB's stated goal in its rulemaking to ensure that any allocation method must **"provide proper incentives, is affordable for all utilities, and is considered equitable."**

The JUG Process - Expedited Without Key Stakeholder Involvement

The SFPUC's preferred approach is that ARB staff refrain from endorsing the JUG proposal at this time until interested parties have had time to review and analyze its methodology and proposed allocation.

As the ARB itself recognizes, the allocation of allowances to the electric sector represents perhaps $10 to $20 billion in value.[2] This should not be done without full and extensive public vetting, comment, and participation.

The SFPUC was not part of the JUG process and was only invited to participate in the November 30th conference call where the ARB was seeking consensus on policy directions regarding a detailed subset of allocation proposals. These detailed proposals were developed by the JUG over several weeks, in a process in which the SFPUC was not involved. To date, we are aware of no information posted about the JUG on the ARB's website, no involvement or sharing of results with the smaller electric utilities, and no sharing of results with any other public stakeholders (i.e. environmental groups, public advocacy groups, and other affected industries) of the proposed allocation. We have since learned that much of the underlying modeling used to develop the proposal comes from a proprietary software program unavailable even to the other JUG participants.

[1] Based on the model provided to the SFPUC after the November 30th meeting, it appears that 95% (Method 5R) to 99% (Method 6) of allowances are allocated on the basis of emissions.
[2] Approximately 700 million allowances times CARB's estimated value of $15 to $30 per ton.

Equally troubling, the JUG proposal represents a fundamental change from the guiding principles outlined in the Initial Statement of Reasons (ISOR) that the SFPUC was reviewing and relying on to prepare its formal comments. The proposal also grants allowances, in contravention of the requirements of AB32, for "early action" that is already required by state law.[3]

Given the limited time, scope, and opportunity for public comment, we do not believe the ARB staff should endorse the JUG proposal to the Board at this time.

Any ARB Staff Recommendation Regarding the JUG Proposal Should Focus on the Stated Goals of the Proposal and Not it's Methodology

Although the SFPUC's preferred approach is to keep the proceeding open to address allocation issues, the SFPUC recognizes that the JUG has engaged in significant effort and appears to have reached some consensus, albeit only among its invited membership.

Any presentation to the CARB Board should focus on the goals of the JUG proposal, and not solely on the proposed methodology.

The SFPUC is concerned that focusing solely on the methodology (as proposed by Michael Gibbs in his follow-up e-mail to the November 30th conference call) could preclude other proposals that would meet the SFPUC's needs while still meeting the overall goals of the JUG guidelines.

The goals of the JUG appear to be, from the November 30th call, to:

- Ensure all utilities have sufficient allowances to provide reliable service and meet their needs;
- Ensure that all utilities do not see increased rates as a result of cap-and-trade implementation (The Allocation-Cost Burden); and that
- Utilities with lower GHG emissions should have a proportionately greater net benefit (i.e. a larger Allocation-Cost Burden) from the allocation process than do utilities with higher GHG emissions.

As noted, the current JUG methodology fails to meet these criteria for the SFPUC.

[3] The JUG proposal would allocate additional allowances based on acquisition of RPS and energy efficiency resources. Both of these activities are required under state law, and in the case of the RPS standards, many of the same utilities that would receive allowances under the JUG proposal have yet to meet their state-mandated RPS requirements. The JUG proposal also fails to recognize, as the ARB did in its Renewable Electricity Standard (RES) rulemaking, that publicly-owned utilities are allowed under state law to adopt different standards for renewable energy. (See Section 97003(19) and 97004).

Inclusion of these goals into the ARB staff recommendation to the Board gives the staff the necessary discretion to craft modifications to any proposed allocation mechanism finally adopted.

There should be a minimum allocation to all utilities under any ARB proposal based on the JUG methodology

As noted, the SFPUC is willing to work with ARB staff within the parameters of the JUG methodology to craft a solution that meets San Francisco's needs.

One option that would address the SFPUC's needs, and that builds off of the allocation work done by JUG, is to modify the JUG proposal so that:

> **In order to recognize and reward those electric distribution utilities that have historically had low GHG emissions, and to provide an incentive for other utilities to continue to reduce their GHG emissions, no electric utility will be allocated less than 200 metric tons of GHG allowances per Gigawatt-hour (GWh).**

The primary advantage of this proposal is that it recognizes those utilities, such as the SFPUC, that in 2010 have already achieved the goals that other California utilities will only achieve by 2020 under the JUG proposal. (See Table #2 taken from the JUG Recommendation Paper).

This allocation would provide sufficient allowances for San Francisco to meet its energy needs and expected growth; mitiage rate impacts, and support and expand its energy efficiency and renewable energy development activities.

Table #3, attached, also based on the JUG allocation methodology, shows how San Francisco, with the lowest emission rate of any major utility, fares the worst when compared to the utilities that participated in and crafted the JUG proposal. It also shows how adoption of this single modification to the JUG proposal would move the SFPUC into the same continuum of net benefits compared to emissions.

A second advantage of this recommendation is that it sets a "stretch goal" for utilities to continue to earn additional allowances for going beyond their required obligations. In order to acquire additional allowances under this proposal, a utility would have to be 55% to 60% GHG-free to earn additional allowances.[4]

A third advantage of this proposal is that it would not significantly affect the allocation of allowances to other utilities under the JUG proposal. As far as we are

[4] These figures assume the utility meets its remaining energy needs with either conventional gas-fired generation (1,000 lb/MWh) or new efficient gas-fired generation (880 lb/MWh). .

aware, San Francisco (98% renewable), the Trinity Public Utilities District (100% renewable), and perhaps the City of Alameda (58% renewable)[5] would be the utilities most likely to qualify. Collectively, these three utilities represent about ½ of 1% of California's electric load.[6] Thus, the impact of rewarding these ultra-low GHG utilities would be lost in the rounding errors currently embedded in the JUG recommendation. The allocation to these utilities still would be significantly below the allocation to other utilities in the electric sector.

CONCLUSION

As noted above, the SFPUC has significant concerns both with the process being used by the ARB to allocate allowances and the methodology being proposed. The SFPUC's preferred approach is for the ARB to continue to work with all stakeholders to develop a workable proposal. The ARB's presentation to the Board should focus on the goals it is trying to achieve and not just the methodologies that might (and in the case of the SFPUC won't) achieve these goals.

We will be contacting you soon to follow up. Please feel free to contact us at (415) 554-1525 or (415) 554-4076 respectively.

/s/ James Hendry
James Hendry
Regulatory Affairs
jhendry@sfwater.org

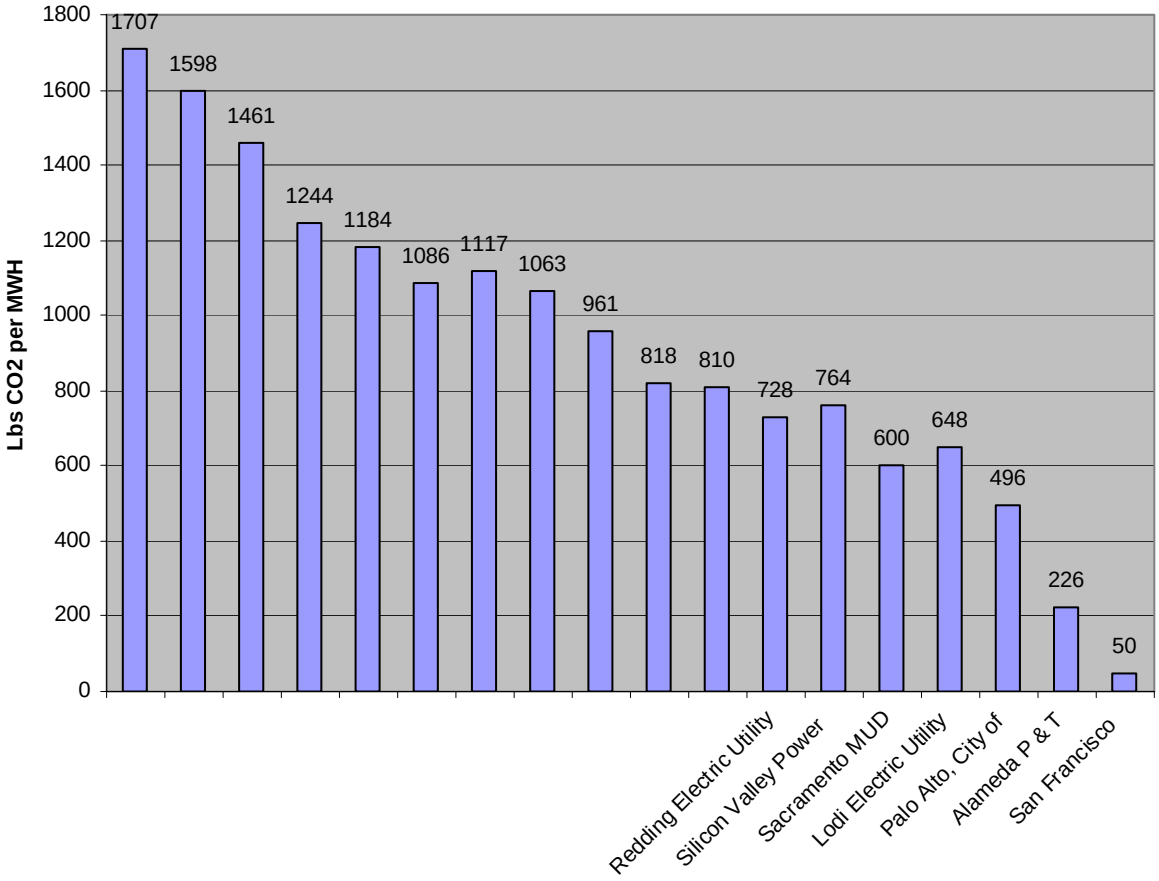
/s/ Bart Broome
Bart Broome
Legislative Affairs
bbroome@sfwater.org

ATTACHMENTS

[5] Due to drought conditions, Alameda's current GHG emissions may be higher than normal due to the need for system purchases that include some component of coal-fired generation.
[6] Approximately 1.5 GWh out of statewide demand of 300 GWh.

TABLE #1

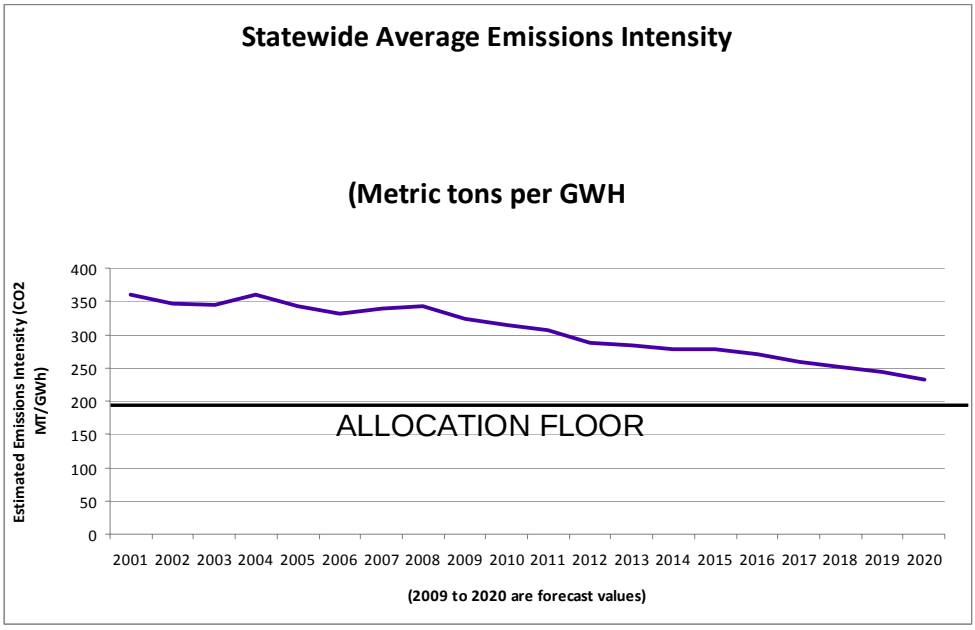
GHG EMISSIONS PER MWH FOR CALIFORNIA'S ELECTRIC UTILITIES 2009



SOURCE: Calculated by SFPUC based on each utility's 2009 Power Content Labels using generic emission factors for each listed fuel source.

TABLE #2

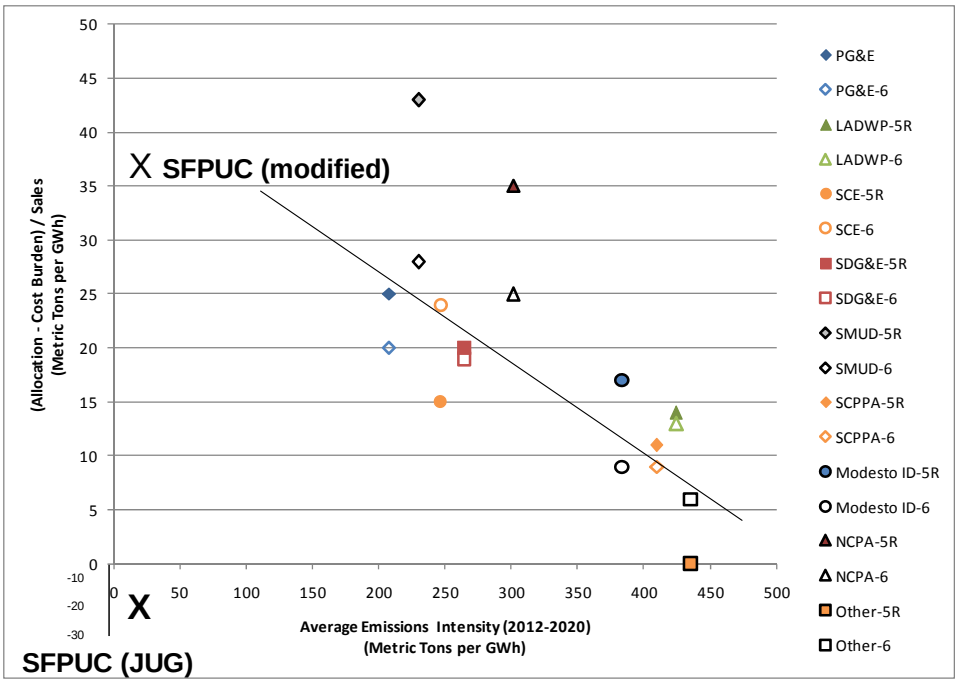
TARGETED ELECTRIC SECTOR GHG EMISSIONS BY 2020



SOURCE: JUG Recommendation Paper (as modified by SFPUC)

TABLE #3

SFPUC'S POSITION UNDER CURRENT, AND REVISED JUG RECOMMENDATION



SOURCE: JUG Recommendation Paper (as modified by SFPUC)

As shown, the SFPUC currently has the lowest emissions of any utility listed on this chart but receives the fewest GHG allowances. Adoption of the SFPUC's proposed modification would move the SFPUC toward the goal that those utilities that had the lowest GHG emissions receive proportionately higher net benefits (defined in the JUG proposal as Allowances – Cost Burden).

Based upon the approach being recommended by the ARB staff to allocate allowances to the electric sector, any allocation approach should:

GOALS FOR ALLOCATING ALLOWANCES TO THE ELECTRIC SECTOR

- Ensure all utilities have sufficient allowances to provide reliable service and meet their needs;
- Ensure that all utilities do not see increased rates as a result of cap-and-trade implementation (The Allocation-Cost Burden);
- Utilities with lower GHG emissions should have a proportionately greater net benefit (i.e. a larger Allocation-Cost Burden) from the allocation process than do utilities with higher GHG emissions; and that
- There should be a minimum allocation to all utilities based upon the targeted emission intensity (Tons of GHG per Gigawatt hour of electricity) expected to be achieved by 2020 under the cap-and-trade proposal.