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January 20, 2017

Clerk of the Board
Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Cap-and-Trade Regulation Amendments, University of California

Dear Air Resources Board Members:

The University of California (the "University") supports the California Air Resources Board's ("CARB") staff proposal to continue to provide transition assistance through the annual allocation of allowances to universities and public sector entities ("UPSEs"). Nevertheless, the University requests two modifications to its annual allocation to account for a change in ownership of the combined heat and power ("CHP") facility located at the Berkeley campus. First, the University respectfully requests that CARB increase the Berkeley campus's baseline emissions for the purposes of calculating annual allocations in recognition of the increased emissions from the campus's assumption of ownership of the CHP facility. Second, if CARB is unable for the next few years to provide annual allocations equal to the Berkeley campus's revised baseline emissions after transfer of the CHP facility, the University asks that CARB provide in 2021 a true-up allocation for the additional allowances that CARB would otherwise have granted to the Berkeley campus during the years 2018-2020.

Under the proposal put forth by CARB, UPSEs would continue to receive an allocation based on an established baseline multiplied by the annual cap adjustment factor. The University views this as an appropriate solution, that balances monetary incentives to reduce emissions, while allowing for funds to be redirected toward greenhouse gas reduction efforts. In 2016, this provision saved the University almost $9 million, which allowed it to spend the funds on projects that are reducing greenhouse gas emissions across the University's ten campuses.

Continuing under a business-as-usual scenario, however, does not address the changing needs of the Berkeley campus. Currently, the CHP facility located on the campus is owned by a third-party, which sells steam to the campus and electricity to the local utility. The Berkeley campus is an opt-in entity under the cap-and-trade regulations, and it receives allowances from CARB under the provisions for UPSEs. The campus currently passes the majority of the allowances associated with the purchased steam through to the current owner of the CHP, while using the remaining allowances to meet the campus's compliance obligations. In 2017, the CHP contract with the third-party ends, as does the contract the third-party has to sell the electricity to the local utility. The ending of both of these contractual arrangements requires the campus to assume ownership of the CHP and use the electric output to meet its own load requirements.

One result of the change of ownership is that the campus would be responsible for the increased emissions and for meeting compliance instrument obligations under the cap-and-trade regulations. At current allowance prices, the University estimates that the annual fee just for the complying with the increased emissions from the electrical portion of CHP facility would surpass $1 million. This money could be spent on greenhouse gas reduction projects instead, as happens at other UPSEs that operate such CHP facilities. Due to this serious financial impact, the University thus requests that CARB increase its allocation to the Berkeley campus to match the treatment of other universities and public sector entities. With the change in ownership of the CHP, there will be no net increase or decrease in statewide CO_2 emissions. CARB can reallocate the allowances from the local utility to the University since the utility will no longer purchase electricity from this facility and the cost of emissions will not be a burden on its ratepayers. Without a change in the campus's baseline emissions for annual allocation to reflect the assumption of ownership and operation of the CHP facility, the University's cost will be borne by students and will inhibit further greenhouse gas reduction investments.

Another concern is that the Berkeley campus would be under-allocated allowances for the third compliance period (2018-2020). It is the University's understanding that changes to allocations in the third compliance period are out of the scope for the current revisions of the regulations and that CARB may not be able to provide annual allowances at the University's new baseline for the 2018-2020 period. To address this problem the University respectfully requests that CARB retroactively allocate these needed allowances through a true-up allocation 2021, similar to the true-up allocation for UPSEs in 2015. The University estimates the additional cost related to cap-and-trade obligations for the third compliance period to be $3-$5 million.

The University looks forward to working with CARB on these issues as updates to the regulations are compiled and approved.

Sincerely,

David Phillips

David Phillips,
Associate Vice President, Energy and Sustainability
University of California, Office of the President