



May 21, 2013
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Dr. Steven Cliff, Chief, Climate Change Program Evaluation Branch
Bill Knox, Cap-and-Trade Program
Claudia Orlando, Cap-and-Trade Program

California Air Resources Board
1001 I Street
P.O. Box 2815
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Re: Sacramento Municipal Utility District's Comments on Proposed Adjustments to the Cap-and-Trade Program's Treatment of Universities, "But For" Combined Heat and Power, and Legacy Contracts

SMUD appreciates the opportunity to comment on the topics discussed at the May 1st workshop regarding proposed adjustments to the Cap-and-Trade regulations with respect to obligated university sources, obligated "but for" cogeneration sources, and legacy electricity and steam contracts for which it is difficult to pass on the carbon obligation.

In brief, SMUD supports the proposed adjustments and believes that they represent reasonable accommodations of unusual circumstances under the Cap-and-Trade Program.

SMUD believes that universities have engaged in investments in efficiency and renewable energy, and have also tended to favor on-site power generation in a combined heat and power structure, thereby promoting energy efficiency. SMUD believes that the accommodation of allowances for sources at universities will make these sources more likely to continue operating, thereby continuing the observed efficiency. SMUD supports the proposed university allocation adjustment.

SMUD also supports the "but for" cogeneration accommodation of temporarily exempting steam emissions from these sources (making them below the compliance threshold) for the first compliance period. Without this accommodation, these facilities will have an incentive to temporarily cease cogeneration operation, increasing demand for electricity from the grid.

In particular, SMUD strongly supports the proposal to allocate allowances to entities that face a compliance obligation associated with a legacy electricity or steam contract that is difficult to renegotiate to include coverage of the carbon cost. SMUD has three legacy steam contracts with steam hosts for our cogeneration facilities. SMUD has not received allowances to cover the steam sales to the hosts from our power plants and has not been successful in renegotiating these contracts to cover allowance costs to SMUD. At this time, SMUD has no preference among the three allocation calculations proposed by staff in the May 1st workshop.

Also, SMUD does not at this time favor covering the emissions from these types of contracts in the second and third compliance periods by changing the point of regulation to the natural gas supplier, with the expectation that the GHG compliance costs will then be passed through in natural gas prices. This would potentially introduce the complication of having emissions from our power plants partially covered as point sources through allowances allocated to LDCs in the utility sector, and partially through the “natural gas supplier” obligation and natural gas prices. SMUD believes that this will unnecessarily complicate reporting for these sources.

SMUD again appreciates the opportunity to comment on the proposed adjustments to the Cap-and-Trade Program.

/s/

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/s/

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cc: Corporate Files