



April 28th, 2016

LEG 2017-0212

Ms. Rajinder Sahota
California Air Resources Board
1001 I Street
Sacramento, CA 95814

SMUD Comments on April 13th 2017 Proposed Cap and Trade Amendments

Thank you for the opportunity to submit comments on the second proposed 15-day language amendments to the Cap and Trade Program, posted on April 13th 2017 (April 13th Amendments). SMUD supports continuing California's leadership on climate issues by continuing reductions of GHG emissions beyond the 1990 level California is poised to achieve in 2020.

SMUD appreciates the continued administrative allocation of allowances to electric distribution utilities (EDUs) on behalf of their ratepayers at the levels contained in the April 13th Amendments. One of SMUD's primary goals when commenting on the development of the post-2020 Cap and Trade program has been to mitigate the potential costs to our customer-owners as the program is extended. Previous proposals on allowance allocation represented a significant risk to our customers – on the order of \$100-\$400 million dollars. The changes proposed to EDU allowance allocations in the April 13th Amendments represent a dramatic reduction in this risk, and provide a reasonable hedge against these potential ratepayer impacts.

In short, SMUD fully supports the proposed EDU allocations in the April 13th Amendments. SMUD appreciates the continued dialogue with ARB staff and management that has led to this reasonable structure. Air Board approval of this allocation structure will help to ensure that climate policy will be cost-effective for California ratepayers. In particular, these impacts would have been hardest to absorb for SMUD's lower income customers and those living in disadvantaged communities.

In addition to strong support for the allowance allocation structure proposed, SMUD has the following additional comment.

Electrification: A variety of academic studies and stakeholder reports and comments have indicated the importance of electrification of distributed fossil fuel uses in achieving the long-term GHG-reduction goals of California. SMUD appreciates the continued dialogue with ARB staff regarding adoption and implementation of a methodology that would provide allowances for electrification of the transportation sector and other sectors where electrification can reduce on-site fossil fuel use and hence GHG emissions. CARB must develop an effective regulatory framework for electrification to avoid discouraging this essential pathway

to our long-term goals. This framework must recognize that most forms of electrification cannot be economically or practically accompanied by sub-metering programs, and requiring such sub-meters acts as a barrier to implementation. The ARB should recognize the 4-1 emission benefit that comes from transportation electrification and find a method that allows coverage of the electric sector emissions without imposing undue barriers.

Industrial Allowance Allocation Related to On-Site Electricity Use: While very supportive of the overall EDU allocation in the April 13th Amendments, SMUD remains concerned about the proposed reduction of allowances to reflect the carbon costs imbedded in electricity used by covered industrial entities, and eventual provision of some amount of allowances to these customers to cover those embedded carbon costs. As the April 13th Amendments do not include assistance factors for the industrial sector, it is difficult to understand the implications for these customers in terms of changes in net costs under Cap and Trade. SMUD looks forward to understanding the full implications of this proposal and continuing dialogue with stakeholders as assistance factors are included and implementation proceeds.

Cost-Containment in the Post-2020 Cap and Trade Program

SMUD remains concerned about long-term cost containment in the Cap and Trade structure. The Cap and Trade marketplace is relatively inelastic in both supply and demand, and prices can quickly escalate to market-busting levels when demand is expected to strain supply. SMUD looks forward to continued dialogue with stakeholders and ARB staff as the Cap and Trade program is extended. In this ongoing dialogue, SMUD urges consideration of changes to the cost containment mechanisms in the Cap and Trade structure that would:

- keep unsold ARB allowances in the basic Cap and Trade market (while removed from current vintages) rather than shifting them to the significantly higher priced APCR structure;
- Include “speed bumps” to slow or stop market price increases prior to accessing the APCR;
- Develop a hard price cap structure that provides market and political assurance of program continuation at reasonable prices while preserving the environmental integrity of the Cap and Trade program; and
- Ensure that offsets can provide a significant brake on future price increases by examining methods to better include offsets, particularly those that provide benefits to disadvantaged communities, in the Cap and Trade market.

Again, SMUD appreciates the opportunity to comment on the April 13th Amendments, and looks forward to continued dialogue with stakeholders and ARB staff as the Cap and Trade program is extended to 2030.

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