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**Re: Sacramento Municipal Utility District's Comments re the  
December 14, 2015 Workshop on Cap and Trade Changes and  
California's Plan for the Clean Power Plan**

SMUD appreciates the opportunity to comment on prospective changes to the Cap and Trade structure in response to experience with the program, the USEPA's adoption of the Clean Power Plan for existing power plants, and the enactment of Senate Bill 350 this year. SMUD has extensive comments on these issues below, particularly on the integrated resource plan targets that are mentioned in SB 350 and the ARB staff's concerns about the current RPS Adjustment.

**I. Integrated Resource Plan Targets Per SB 350**

Senate Bill (SB) 350 included language that requires certain utilities (IOUs and larger POU's) to adopt an integrated resource plan (IRP) that ensures these utilities meet GHG "targets" established by ARB that are consistent with achieving a 40% economy-wide reduction in GHG below 1990 levels by 2030. SB 350 provides no legislative direction to ARB about establishing these targets, although the Governor established the 40% target by Executive Order in April of last year. SMUD contends that ARB has significant flexibility to establish targets that are consistent with the fundamental structure of the Cap and Trade program. Under Cap and Trade, individual sources do not have a specific, binding, pre-defined "target" level of GHG emissions they are required to meet. SMUD does not believe that SB 350 requires such predefined, binding, target levels of emissions for the electric sector or for the individual utilities that are required to develop IRPs.

At the December 14<sup>th</sup> workshop, ARB staff stated their understanding that the IRP targets in SB 350 are not meant to introduce sub-targets within the existing, multi-sector Cap-and-Trade program, and any proposal "... must not disrupt the efficient operation of the economy-wide program ..."<sup>1</sup> SMUD supports the ARB staff position because any specific sector and entity-specific GHG target levels will not change the total amount of emissions from within that system, hence will not achieve additional emission reductions. Binding sector and/or source-specific GHG reduction requirements within this structure will only constrain the ability to find and choose the lowest-cost reductions within the covered sectors and sources, thereby raising overall costs of getting to the cap. In particular, specific binding targets within the utility sector will only raise ratepayer costs without securing any actual statewide GHG benefit.

Setting binding GHG targets for the electricity sector and entities within the electricity sector raises several difficult questions:

- 1) How binding utility-specific targets in the electric sector would interact with basic source-based obligation under the Cap and Trade structure.
- 2) Whether the electricity sector should remain covered by the Cap and Trade program at all, if entities have specific targets that must be met.
- 3) Whether fairness demands that targets also be set for other sectors and entities under the cap (including utilities not covered in the SB 350 IRP requirements). While SB 350 does not address these other sectors, the ARB likely has authority to address these sectors in some fashion as it deals with the implied electric sector targets from SB 350.

These questions reinforce the necessity, in SMUD's mind, of finding a path that does not establish binding GHG targets in the electricity sector.

SMUD recommends that the ARB consider the following points in meeting the implied requirements of SB 350:

- SB 350 does not direct ARB to establish targets for the electricity sector. ARB and collaborative agencies can simply state that by virtue of participation in a Cap and Trade structure with an economy-wide cap that reflects a 40% reduction in GHG emissions from 1990, along with complementary programs in the electric sector (e.g., the 50% RPS, doubling of energy efficiency, the emissions performance standard, and electrification of other sectors), the electric sector and SB 350 covered entities are on a course that is consistent with the 2030 goal.
- If ARB believes that targets must be established under SB 350, for the electricity sector, any specific targets do not need to be, nor should be, binding targets that

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<sup>1</sup> Staff Presentation at 18. <http://www.arb.ca.gov/cc/capandtrade/meetings/20151214/rpssb350.pdf>

must be met under ARB regulation or as a mandatory requirement in an IRP. An IRP does set out procurement prospects and goals that are actionable, but these are typically not binding. As time progresses, entities can and should adjust their resource planning to the circumstances and information that arises.

- If ARB believes that targets must be established under SB 350 for the electricity sector, ARB has the flexibility to adopt ranges, rather than specific targets, to reinforce the concept that these are not hard, enforceable, amounts. The target ranges could account for high and low scenarios of load growth, energy efficiency savings, electrification load, renewable procurement (while meeting the RPS requirements), etc.
- If ARB believes that targets must be established under SB 350 for the electricity sector, ARB does not need to establish ongoing or interim targets, only final targets for the year 2030. Unlike the Cap and Trade program, which has compliance periods and annual and triennial surrender obligations, SB 350 and IRPs point to long-range planning.
- If ARB believes that targets must be established under SB 350 for the electricity sector, ARB has the flexibility to reflect in those soft targets the projected or estimated emission reductions in the transportation and other fuel sectors from electrification of these end-uses. These targets would reflect overall impacts from measures included in an IRP, then, consistent with an economy wide 40% reduction in GHG, but would be clearly separate from a Cap and Trade obligation or compliance structure.
- If ARB believes that targets must be established under SB 350 for the electricity sector, ARB has the flexibility to establish rate-based targets, in the form of tons of GHG/MWh, rather than mass-based targets (“benchmarks” in the ARB presentation on this issue). A set of soft, rate-based targets for the utility sector and SB 350 IRP entities is easier to separate from the basic obligations under the Cap and Trade structure, avoiding disruption of the efficient operation of that program. A rate-based structure provides emission guidance targets, while preserving the compliance instrument trading and retirement structure of the Cap and Trade program. A rate-based structure helps to insulate an SB 350 IRP entity from increased emissions due to unexpected load growth. While in such a circumstance the entity would still have to be provided or procure compliance instruments to cover emissions under Cap and Trade, the entity would likely see little change in its emission rate, and hence also still be within the guidance of a rate-based SB 350 target.

## **II. RPS Adjustment**

**Introduction:** SMUD worked for and appreciated the adoption of the RPS Adjustment, and believes strongly that it should be continued in the Cap and Trade program. SMUD

believes that our use of the RPS Adjustment has been in conformance with the Cap and Trade and Mandatory Reporting regulations, and we have not experienced any concerns or issues from our independent verifiers or from ARB staff concerning our use of the provision. Hence, we believe it is possible to use the RPS Adjustment as intended, and strongly encourage its continuance. SMUD believes that the issues identified by ARB staff concerning how the RPS Adjustment has been working can be resolved, and stands ready to work with staff and other stakeholders to make the provision work, including modifications and clarifications that may be necessary to ease the verification burden and ensure against any double counting activity. SMUD generally supports the Joint Utility letter filed on January 15<sup>th</sup>, 2016 by Claire Halbrook, with a slightly different perspective on RECs.

As SMUD mentioned in the December 14<sup>th</sup> workshop, we have used the RPS Adjustment to help conform our carbon obligation under the Cap and Trade program with the carbon footprint of our renewable procurement. We think that such conformance is generally good, as nonconformance of these values can lead to confusion on the part of consumers and other stakeholders. Hence, SMUD supports structures that work to conform the carbon obligation and carbon footprint to the extent that they can be made to work under the Cap and Trade structure.

With a source-based Cap and Trade compliance structure, a utility's compliance obligation can vary significantly from the utility's carbon footprint. An individual utility may have no owned-sources or covered imports, and hence have no carbon obligation, but still procure power from covered sources that emit GHG within California and hence have a "carbon footprint". Less stark or complete examples of this situation are common in the Cap and Trade environment today – any utility that procures power from a merchant, covered, emitting source within the state for sale to its retail customer has a "footprint" related to that power, but no Cap and Trade compliance obligation. In these cases, however, the carbon footprint matches the carbon emitted from the resources procured by the utility.

**RECs and GHG Attributes:** SMUD agrees with standard concept and practice in California renewable programs and structures, including the RPS and voluntary renewable procurement, that the buyer of a REC acquires the environmental attributes of the underlying energy. However, SMUD suggests that the only attributes that can come along with the REC are those associated with the generation and delivery of the underlying renewable power. To SMUD, that means *the REC carries the zero or near-zero GHG emissions and criteria emissions characteristic of the underlying energy*. What happens on the interconnected grid as a result of the renewable generation – which resources are displaced on the grid – *is not under the control or ownership of the REC buyer, and hence cannot be carried with the REC*. While in general the renewable generation will imply that GHG emissions are reduced somewhere, this reduction is not clearly under the control of the REC procurer. Hence, if GHG reductions are associated with the REC under Cap and Trade, there is the potential for double-counting reductions—once with the RECs and again with the actual reductions that occur

elsewhere. In addition, the renewable generation may in some cases displace non-GHG emitting power, or may displace GHG emitting power that is never imported to California. A REC then, *cannot carry any specific claim of an amount of GHG emission "reduction" so that it can be considered "tradable" in the Cap and Trade compliance arena.*

That said, it is true that generally the concept of procuring renewable power involves procuring a zero-GHG resource. There are many instances in the Cap and Trade structure where one's carbon obligation is not reduced by this zero-emission procurement – where there is a mismatch between the underlying GHG emissions of the resource procured by the utility and the procurer's Cap and Trade carbon obligation. The RPS Adjustment was a fix for one of these types of mismatches – where a utility bought bundled renewable power outside the state, but the power could not be delivered to the state, and substitute emitting power was delivered in its stead. Again, SMUD supports continuing to include fixes such as the RPS Adjustment to the extent possible in the Cap and Trade structure.

**Clarifying Existing RPS Adjustment:** The current RPS Adjustment is only available to renewable procurement that is not directly delivered to California (to a CA balancing authority). A corollary requirement is that any renewable electricity that is directly delivered cannot be associated with an RPS Adjustment. A third related requirement is that directly delivered energy from a specified source must be reported as specified power (from that source). This third requirement is more related to ARB's desire to have accurate reporting and an accurate inventory of the emissions from imported power sources, rather than a requirement that exists because of the RPS Adjustment. As SMUD understands it, ARB staff is concerned that some entities have claimed the RPS Adjustment by virtue of procuring the RECs in a transaction where the underlying renewable energy was delivered to a California Balancing Authority (BA) as unspecified power. Below, SMUD describes a way in which this transaction may be acceptable to ARB. If ARB simply wants to keep the existing RPS Adjustment, and avoid instances where the RPS Adjustment is claimed with the REC and the underlying power is directly delivered as unspecified power, SMUD recommends the following regulatory changes to the Cap and Trade and Mandatory Reporting regulations:

Section 95852(b)

- (4) RPS adjustment. Electricity procured from or generated by an eligible renewable energy resource reported pursuant to MRR must meet the following conditions to be included in the calculation of the RPS adjustment:
  - (A) The electricity importer must have:

1. Ownership of, or contract rights to procure, the electricity and the associated RECs generated by the eligible renewable energy resource; or
  2. A contract with an entity subject to the California RPS that has ownership of, or contract rights to, the electricity and associated RECs generated by the eligible renewable energy resource, as verified pursuant to MRR.
- (B) The RECs associated with the electricity claimed for the RPS adjustment must be placed in the retirement subaccount of the entity subject to the California RPS, and party to the contract in 95852(b)(4)(A), in the accounting system established by the CEC pursuant to PUC 399.25, and designated as retired for the purpose of compliance with the California RPS program within 45 days of the reporting deadline specified in section 95111(g) of MRR for the year for which the RPS adjustment is claimed.
- (C) The quantity of emissions included in the RPS adjustment is calculated as the product of the default emission factor for unspecified sources, pursuant to MRR, and the reported electricity generated (MWh) that meets the requirements of this section, 95852(b)(4).
- (D) An RPS adjustment cannot be claimed for electricity generated by an eligible renewable energy resource when that electricity is directly delivered, regardless of REC ownership. Any claim for an RPS Adjustment must be accompanied by an attestation that the underlying renewable electricity was not directly delivered and that substitute electricity was delivered to a California balancing authority in the amount equal to the RPS Adjustment claim.

This clarifies the circumstances in which the RPS Adjustment can be claimed, and adds requirements to assist in verification of the RPS Adjustment claim. The verification requirements can be met for generation that cannot be delivered to California (so that substitute generation is required for delivery) or through a contractual requirement that binds the REC seller from delivering the underlying electricity to California.

**Modifying and “Extending” the RPS Adjustment:** Alternatively, SMUD suggests that ARB take the opportunity presented by the current difficulties with the RPS Adjustment to revise the Cap and Trade structure to be more consistent with the RPS program and standard understandings of RECs in California. SMUD believes that the zero or near-zero GHG attribute of eligible renewable generation can be associated clearly with the ownership of RECs in more instances in the Cap and Trade structure, and that this action would serve to conform the RPS program and Cap and Trade to a significantly

greater degree and to reduce market confusion about an entity's carbon obligation in comparison to its carbon footprint. SMUD believes that conformance between Cap and Trade and the RPS program should be pursued in all cases where it can be established without harming the integrity of either program.

The RPS applied to electric utilities or load serving entities and the Cap and Trade applies to sources of electric power, either in-state or imported. These sources may or may not be controlled by and hence also an obligation of the LSE. An electric utility can reduce its GHG emissions by either reducing electricity use, and hence emissions, through efficiency programs, or by switching to lower or zero emission sources to provide electricity, such as renewable power. As a complementary program to the Cap and Trade program, the RPS is intended to foster procurement of renewables in part so that GHG emissions from the electric sector are reduced. Individual utilities must comply with the RPS, and by complying are expecting that they are contributing to reducing GHG emissions and are reducing their carbon footprint and potentially also their GHG compliance obligation under Cap and Trade.

For example, adding any new renewable (or other zero-emission) generation that directly serves customer load will reduce generation from fossil sources to serve that load, thereby reducing the utilities' carbon footprint. If the fossil sources reduced are from the utility's first deliverer imported power contracts, or from sources in the state that contribute directly to the utility's Cap and Trade emissions, this new renewable procurement also reduces the utility's Cap and Trade obligation. On the other hand, if the new renewable procurement is *not* delivered to a utility's service territory it generally will not reduce emissions associated with serving that utility's retail load. The utility will have a reduced carbon footprint in concept, but no change in its Cap and Trade obligation.

This implies three types of renewable procurement that do not directly reduce the emitting resources serving a utility's load, and hence may lower the utility's carbon footprint but have no impact on the utility's Cap and Trade obligation:

1. Renewable generation from outside California that is not delivered, but explicitly associated by the utility with delivered substitute power. **Currently, the ARB correctly allows the RPS Adjustment to reduce the utility's Cap and Trade obligation as well as its carbon footprint.**
2. Directly-delivered renewable generation from outside a utility's service area that does not come with energy explicitly delivered to the utility's service area. Whether located in California or imported, the utility's Cap and Trade obligation is not reduced if not imported all the way to the utility's service area, thereby allowing other emitting procurement of the utility to be reduced. **No policy is in place to attempt to conform Cap and Trade obligation to carbon footprint here.**

3. Unbundled procurement of RECs but no underlying renewable or substitute generation from outside one's service area. This may lower an entity's carbon footprint, but does not explicitly change Cap and Trade obligations. **Again, no policy is in place to conform Cap and Trade obligation to carbon footprint.**

In the first case above, the ARB has established a policy in which the zero-emission nature of the LSE renewable procurement is recognized in the Cap and Trade structure. There is renewable generation that occurs, which will displace, in most if not all cases, fossil, GHG-emitting power. When the renewable generation is outside of California<sup>2</sup> and not delivered to a CA balancing authority, the emission reductions are not accounted for under the Cap and Trade structure, and it is appropriate for ARB to recognize those reductions through the RPS Adjustment. It is important to recognize that since the emission reductions are not in capped jurisdictions, they occur without offsetting emission increases in those jurisdictions, allowing ARB to recognize those reductions under the Cap and Trade system.

However, if the renewable generation associated with an RPS adjustment is delivered to California as a specified, zero-emission source, that delivered generation will tend to displace fossil generation in the state, and reduce GHG emissions from these sources. If an entity's specific emissions and Cap and Trade compliance obligation is adjusted via the RPS Adjustment, there is the potential for double counting of emission reductions, which under the Cap will allow commensurate but inappropriate GHG emission increases.

On the other hand, if the renewable generation associated with an RPS adjustment is delivered to California as an unspecified source, this impact does not occur. An emission obligation comes with the imported power, and that makes it reasonable for ARB to allow an RPS Adjustment associated with the RECs from the renewable generation. There is no longer the potential for inappropriate double counting. SMUD believes that ARB should relax the restrictions on the RPS Adjustment to allow the practice for RECs in which the underlying renewable energy is delivered to a California balancing authority as unspecified power. This has the benefit of further conforming the fundamental RPS and Cap and Trade policies of the state, while preserving the environmental integrity of the Cap and Trade structure.

ARB's apparent rationale for disallowing an RPS Adjustment for the RECs associated with renewable generation that is stripped of the RECs and delivered as unspecified power is that any power that is from a specified source should be delivered as specified, with the appropriate specified source emission factor, in order to preserve the accuracy of emission reporting for sources and imports to California. SMUD suggests that in this

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<sup>2</sup> More specifically, outside any "capped system", but in current reality in the Western Grid this is only California.



case there is no overall reduction in accuracy – RECs are imported to California and are allowed to reduce an entity's carbon obligation by the amount of underlying generation times the default emission factor while the energy is delivered as unspecified with a matching default emission factor applied. The overall accounting for emissions is exactly the same as if the RPS Adjustment was not allowed and the specified source was delivered with the specified-source emission factor. SMUD believes that conformance between the RPS and Cap and Trade structures here should be given more weight than the specific accuracy of emission reporting for a source rather than for the system as a whole.

To implement this change to the RPS Adjustment, SMUD refers to the edits to the Cap and Trade and MRR regulations that were detailed in the joint utility letter filed on January 15, 2016 by Claire Halbrook as a guide to the necessary changes.

SMUD recommends going beyond this change to the RPS Adjustment to further conform the RPS and Cap and Trade structures in California, and further conform an entity's carbon obligation to its carbon footprint. Case 2 above covers the case where renewable generation is directly-delivered to a California balancing authority, but not explicitly delivered all the way into the utility's service area. The electricity is sold as null power, the procuring utility owns the RECs and uses them for the RPS (or similar program) and also counts a reduction in carbon footprint, but does not receive a reduction in Cap and Trade obligation. Again there is a lack of conformance between the foundational RPS and Cap and Trade policies in California.

SMUD suggests a further extension of the RPS Adjustment concept to cover this situation, and bring further RPS and Cap and Trade conformance. As long as the underlying energy is delivered to a California balancing authority as unspecified or null power, the ARB should allow the REC procurer to include an RPS Adjustment associated with the RECs. The Cap and Trade obligation is then recognized as "transferred" from the REC holder to the procurer of the null power within California. The procurer of the null power now would have a Cap and Trade obligation while the procurer of the RECs would see a commensurate reduction in Cap and Trade obligation. The overall, total, Cap and Trade obligations remain constant -- there is no double counting.

A common factor in both of these recommended changes, for Cases 1 and 2, is that there is power delivered into the Cap and Trade structure, and ARB can monitor and regulate that delivery. Since the REC is effectively stripped in both cases, ARB should explicitly indicate that the null power left behind in such transactions should be sold as unspecified power with a default emission factor – the zero or near-zero emission factor that defines the specified renewable source goes with the REC.

This is in contrast to Case 3, where a California utility simply buys an unbundled REC with no power as allowed by the RPS. In this case, there is no clearly associated power to which to assign the default emission factor and monitor reporting and compliance

with that requirement. In most cases, unbundled REC will be procured from a resource not directly delivered to a California balancing authority, and without any associated delivery of substitute power. While the underlying renewable generation should conceptually be sold as null power with default emissions in the source jurisdiction, typically ARB has no ability to monitor or enforce such a requirement if the generation is not within California or no associated generation is delivered to California.

Hence, while SMUD would welcome further conformance of the RPS and Cap and Trade structures Case 3 as well as 1 and 2, SMUD recognizes that the inability of ARB to enforce the required structure at this time makes such conformance impractical at this time. Further development of multi-jurisdictional policies will be necessary in order to consider this change.

SMUD was involved in the initial Western Climate Initiative effort on this issue, in which the null power and REC structure recommended here was not chosen. SMUD notes that the market anticipated in WCI a multi-state Cap and Trade structure in the western interconnect and beyond has not materialized. California is the only western interconnect state that has moved forward (with linkage to Quebec, from which electricity imports are moot). Hence, SMUD suggests that ARB now has the opportunity to reflect the market structure that has developed and the RPS that has further developed in California and reconsider a broader null power and REC structure for the Cap and Trade program.

SMUD recommends that specified sources only be allowed to be reported as unspecified power where there are explicit RECs that were also generated by that source and those RECs are being accounted for in the Cap and Trade structure as proposed above. In particular, the recommended policy should continue to not allow a specified source with emissions greater than the default emission factor to report as unspecified.

### **III. Interaction With Clean Power Plan**

SMUD believes that this is a complicated area that will take some time to sort out. The sorting does not need to fully occur necessarily in this set of amendments. There is no real interaction between the two programs at present, all the interaction is years away. In particular, any Cap and Trade amendments for the third compliance period can proceed without considering CPP interactions.

However, any amendments to Cap and Trade proposed for post-2020 must account for CPP interactions. SMUD recognizes that a degree of certainty about post-2020 structures facing California obligated entities is useful as early as possible. Hence, SMUD submits the following initial comments on Cap and Trade and CPP interactions:

- SMUD believes that the post-2020 Cap and Trade can easily be made consistent with the CPP compliance periods simply by making the first post-

2020 compliance period after 2020 a four-year compliance period. With annual surrender, there should not be a problem with a four-year period in this one instance. A four-year period will be easier to conform to the 2022-2024 first compliance period under CPP. Alternatively, ARB could “set-aside” 2021 as a single compliance year, simply continuing the 2020 obligation for the subsequent year. A one-year compliance period may be acceptable with no change in compliance obligation from the previous year.

- SMUD believes that the reporting/compliance/allowance recording dates in the CPP are impractical, since the California experience is that verified emissions data for a year takes significant time to collect. If the allowance allocation structure is well known ahead of time, as it was for utilities in the Cap and Trade program, then recording allowances into accounts can happen much later than envisioned in the CPP. At the same time, other allowance provisions to industry and for various special cases (legacy contracts) depend on good emissions and other data for the previous year, and hence require a later recording date. SMUD would encourage ARB to understand if the CPP scheduling dates can be altered to reflect the need for good data, per the California experience.
- SMUD supports the specific instances of borrowing allowances from future periods or allocations in the economy-wide Cap and Trade program, and does not believe that CPP interactions imply that these would need to be modified or removed from the Cap and Trade program.
- SMUD agrees that backstop provisions will be an important issue to address, but finds it difficult to comment specifically without more definition of the provisions.
- SMUD agrees that the issue of imported power being covered under the Cap and Trade, as well as regulated by the CPP in the exporting states requires significant thought and consideration of potential Cap and Trade modifications to ensure that there is not inappropriate double-regulation of these sources. It is particularly important not to have the costs of imported power to California increased by regulations that conflict with or interact poorly with each other.

#### **IV. Clean Power Plan Modeling Analysis**

SMUD supports the modeling analysis path that ARB and collaborative agencies have described. The state measures approach relies on a showing to EPA that modeling shows almost no chance of non-attainment of the emission reductions expected from the existing covered sources. SMUD believes that the “stress case” aimed at modeling the highest possible level of emissions from the covered existing generating units covered by the CPP include the following provisions:

- An assumption that the current required retirement or repowering dates of Once-Through Cooling obligated plants are modified due to system needs to keep these plants on-line longer. There have already been several approved extensions for compliance with the OTC regulations, and the collaborative agencies should model additional extensions for the stress case.
- An assumption that the 50% RPS does not result in 50% of sales supplied by renewables in 2030 due to exercise of the cost-containment and other flexibility measures in the structure.

## **V. Cost Containment and Offsets**

SMUD has argued previously that the ARB should find a way to apply the offset limit to facilitate full use of offsets up to the limit, and to exclude some offsets from the limit. It is now clear from the record in the first compliance period that the market could not or certainly did not fully utilize offsets – only 4.5% of the compliance instruments surrendered were offsets, well below the 8% limit. As SMUD and other stakeholders have noted, greater use of offsets will help to contain the costs of obligated entities under the Cap and Trade program.

SMUD suggests two changes to the offset structure to help preserve full use of the offset limit and reduce potential Cap and Trade costs.

First, SMUD suggests that the ARB allow entity's to "carry over" any unused portion of the offset limit across compliance periods or by spreading unused amounts over the broader market. The actual practice in the first compliance period makes clear that some entities will not, for one reason or another, avail themselves of their full offset potential for compliance, which will simply increase compliance costs in the market for all entities without any additional reduction in GHG emissions.

Second, SMUD suggests that ARB exempt from the offset limit any offsets that provide in-state ancillary environmental benefits similar to actual reductions at capped sector facilities. One way to structure this would be to exempt offsets from the 8% limit if the offset projects involve one or more of the following:

- a direct reduction or avoidance of any criteria air pollutant in California;
- a direct reduction or avoidance any impacts on water quality in California;
- a direct alleviation of a local nuisance within California associated with the emission of odors;
- direct environmental improvements to land uses and practices in California's agricultural sector;

- direct environmental improvements to California's natural forest resources and other natural resources; and
- a direct reduction of the need for mitigation of the impacts within California of rising global greenhouse gas emissions.

SMUD also remains concerned about the possibility that carbon offsets can be invalidated within 8 years of project approval, and that the liability for such invalidation belongs to the buyer of the offsets. SMUD believes that this policy has significantly constrained use of offsets to date. ARB should reconsider alternatives to buyer liability such as pools to make whole any invalidated procurement and/or enforcing liability somehow on offset producers.

## **VI. Streamlining And Miscellaneous Recommendations**

**Streamlining:** SMUD supports streamlining the auction and financial settlement processes in the Cap and Trade program as presented by ARB staff in the October 2, 2015 workshop. It is highly desirable to stakeholders for ARB to move towards electronic submission of forms into CITTS wherever feasible, particularly for forms that are to be signed and submitted by an entity's PAR or AAR. Forms that require signatures by others such as company executives could also be submitted electronically if it is feasible to include the electronic signatures of those signatories in the system easily. For forms that are needed relatively infrequently, or that are to be signed by relatively infrequent users of CITSS, a hardcopy option should be maintained. Perhaps the simplest option here would be to allow the PAR/AAR to upload a PDF file with a wet signature from the required official.

**POU Allowance Value Report:** The ARB should consider extending or changing the deadline for submission of POU allowance value report to better conform with the timeline for annual MRR verification. POUs have the option of using allowances to provide for compliance, and it is helpful for determining and reporting on the use of allowance value for the POU to have full, verified knowledge of the compliance obligation for the year. SMUD is unaware of any specific reason for the allowance value report to be required as early in the year as it currently is, or any reason why the date for the report could not be moved until after verification is done for the previous year's emission obligation.

In addition, the allowance value form requires inclusion of funds not just from the previous year, but also covering funds which have been spent "by the date of the signature on this form". This practice is messy and does not conform to standard accounting practices. Ideally, the report would require what money had been spent in the compliance year in question, and funds not spent by the end of the year would be flagged as unspent and updated on the next year's report. All value use would still be reported, just on a cleaner schedule than currently required. Requiring what was spent after the compliance year ends through whatever arbitrary date the signature was

finalized on is nearly impossible from a timing perspective. The books in accounting are done monthly, so any date in the middle of a month falls outside normal practice and runs the risk of incomplete information, not yet finalized from a booking and reporting perspective. To address this accounting difficulty, SMUD typically “rounds” to the end of the month for this form.

**KYC Requirements, Option 2:** SMUD understands that the ARB was going to consider including additional changes to the Know Your Customer regulations. Specifically, SMUD understood that ARB would take KYC Option #2, which is currently just in a guidance document, and put it into the regulations directly. This will reduce stakeholder concerns about the KYC requirements.

**POU Allowance Designations:** The current Cap-and-Trade regulation allows a POU to designate what amounts of administratively provided allowances that the Executive Director should place in the POUs limited use holding account or in the compliance accounts of: 1) an electrical generating facility operated by the POU; 2) an electrical cooperative; or 3) a JPA in which the POU is a member and with which it has a power purchase agreement. SMUD still desires a fourth allowable designated use to the compliance account of a federal power authority that is importing electricity products on the behalf of an electric distribution utility. This would reduce costs and complexity in comparison to the current structure, which requires the provision of allowances through a seemingly unnecessary sell/buy operation in a Cap-and-Trade auction.

**Voluntary Renewable Energy Provisions:** SMUD continues to support the ability of entities with voluntary renewable energy programs to include resources that take advantage of the RPS adjustment. Voluntary programs help to reduce overall GHG emissions through the greater than required procurement of renewable generation, and these programs would be furthered by including the option of procuring the lower cost intermittent resources that can most effectively be procured through an RPS Adjustment transaction.

However, the Cap-and-Trade regulations currently reserve the use of the VRE program for only directly delivered renewables, not allowing the “RPS adjustment” pathway. SMUD continues to recommend that the Cap-and-Trade Regulations allow use of the VRE provisions for voluntary program procurement of RPS eligible resources that could take advantage of the RPS Adjustment. This will provide equal treatment for RPS procurement and VRE procurement.

SMUD appreciates the opportunity to comment on prospective changes to the Cap and Trade structure in response to experience with the program, the USEPA's adoption of the Clean Power Plan for existing power plants, and the enactment of Senate Bill 350 this year.

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