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Mr. Michael Gibbs, Assistant Executive Officer
Ms. Rajinder Sahota, Assistant Division Chief
California Air Resources Board
1001 I Street
P.O. Box 2815
Sacramento, CA 95812

Sacramento Municipal Utility District's Comments Re: The 2030 Target Scoping Plan Update Concept Paper (June 17, 2016)

SMUD appreciates the opportunity to comment on the 2030 Target Scoping Plan Update Concept Paper (Concept Paper) released by ARB on June 17, 2016. SMUD has long supported ARB's efforts to address climate change by reducing GHG emissions in California. SMUD has provided comments on the initial Scoping Plan pursuant to AB 32 and the First Scoping Plan Update released and adopted in 2013-2014. Governor Brown's Executive Order B-30-2015 established the 2030 goal of GHG emissions 40% below 1990 levels and required the ARB to update the most recent Scoping Plan to focus on that new goal for California's climate efforts.

I. Comments On Concept Paper Text

SMUD appreciates that the Concept Paper emphasizes flexibility. (Concept Paper, page 7.) SMUD has been a champion of flexibility as a key principle to help achieve our climate goals at the lowest cost. We agree with the Concept Paper that the, "... actions and tools recommended by the [forthcoming] Draft Scoping Plan must include a flexible framework for implementation. (Concept Paper, page 7.) Such flexibility allows for stakeholders and the market place to search for, find, and implement the lowest cost, most effective GHG reduction strategies. SMUD believes that a robust Cap and Trade component strategy, as listed in "Concept 1" on page 21, is an essential element of a flexible Scoping Plan.

SMUD agrees that it is important to, "...address the increasing trend in the severity of wildfires in California due to climate change.... (Concept Paper, page 9.) SMUD has extensive hydroelectric and other generation resources, and transmission lines to bring that generated power to our customers, that can be significantly affected by forest fires, requiring substitute power from higher-GHG resources. Environmentally sound strategies to reduce the risks of forest fires and the impacts of the fires that do occur should be included in the forthcoming Draft Scoping Plan.

Sacramento is known as the "City of Trees", and SMUD has a long-standing program that provides free shade trees to our customers. We agree with the

Concept Paper (page 9) that urban greening can help to reduce GHG emissions and store carbon in urban landscapes. Properly situated trees also help reduce cooling loads for our customers and reduce the urban heat island effect as part of a comprehensive adaptation strategy for dealing with the projected impacts of climate change.

SMUD agrees with the Concept Paper (page 13) that it is extremely important to devise strategies that will achieve the State's 2030 goal with an eye on the longer-term, the 2050 target of reducing GHG emissions by 80% below 1990 levels. This ambitious long-term target should be kept in mind as alternative 2030 strategies and measures are considered, for lowest-cost achievement of the combined 2030 and 2050 goals. A relatively inexpensive strategy to achieve the 2030 goal may not be best in comparison to a more expensive strategy that achieves that goal, but also better paves the way for achievement of the 2050 goal. As the Concept Paper suggests, the question of where renewable natural gas is best utilized is a good example, since long-term contracts for this resource can tie up the product in perhaps second-best uses.

While SMUD understands the importance of cumulative GHG emissions – the severity of climate disruptions is related to the cumulative amount of emissions, not any annual rate or amount – SMUD does not understand the logic on page 18 that additional cumulative emission reductions of a certain amount are necessary to achieve the 2030 annual GHG goal. Rather, as ARB acknowledges, different pathways to the 2030 goal can be developed and analyzed, each with a different amount of implied cumulative GHG emissions. Given the different possible pathways, the statements on page 18 that, "... approximately 752 MMTCO₂e ..." of cumulative reductions overall or that, "... additional policies to require "... approximately 127-219 MMTCO₂e ..." of GHG reductions (beyond modeled strategies) are not logical.

II. Comments on Four Concepts

Of the four concepts, SMUD strongly supports Concept 1: Complementary Policies with a Cap-and-Trade program. This is the structure that has been successfully implemented in California to date, with complementary policies like the Renewables Portfolio Standard and energy efficiency programs backed up by a comprehensive, statewide, market-based, Cap-and-Trade program. The advantage of the Cap-and-Trade alternative is the flexibility provided for the final emission reductions needed to meet the statewide cap to come from the least-cost sources, rather than be prescribed to specific market actors.

The Cap-and-Trade alternative provides a market for emission reduction actions, allowing those stakeholders with relatively inexpensive actions to invest and get somewhat of a return out of those measures. This in turn means that some

stakeholders can turn to the market for compliance and avoid the relatively expensive actions that would drive up their compliance costs.

In addition, a Cap-and-Trade alternative provides a degree of certainty to the State and the market about the target to be reached and the cost to get there. The declining cap provides for measured, clear reductions to be achieved each year to get to the 2030 goal. Complementary measures alone do not provide as clear an overall path or signal. Second, the floor and soft ceiling price design of the Cap-and-Trade structure gives a clear signal to the market about the cost of GHG emissions and the benefit then of specific investments to reduce GHG emissions. At the same time, ARB's policies for providing allowances administratively to industries like electric distribution utilities mitigate the costs to ratepayers and consumers of achieving the targets. A path without Cap-and-Trade would almost certainly mean higher overall costs to consumers.

SMUD also believes that Concept 4: Complementary Policies with a Carbon Tax can provide some of the same market flexibility as the Cap-and-Trade program in Concept 1. It has some appeal of simplicity, but, Concept 4 has the disadvantages that:

- It is a significant departure from current California experience – there would be market disruption and market uncertainty.
- It implies complications if not complete abrogation of California's linkage with other jurisdictions such as Quebec, Ontario (forthcoming), and hopefully others.
- It includes either significant uncertainty about achieving the 2030 target (if the carbon tax is too low), or significant uncertainty about the costs of achieving the target (if the carbon tax is to be adjusted regularly to get adequate emission reductions), or both.
- It implies that some other policy, such as the State's RPS, may become federally enforceable under the Clean Power Plan when and if that plan moves forward.
- It is not likely that Concept 4 is politically feasible in today's environment.

In short, SMUD prefers Concept 1 to Concept 4. SMUD also prefers Concept 1 to the two concepts listed without a market-based Cap-and-Trade or carbon tax structure included. Achieving the 2030 goal without a market-based component simply will increase overall costs. In particular, SMUD opposes Concept 2: Ambitious Complementary Policies without Cap-and-Trade; a Focus on Industrial Sources. In particular, Concept 2 involves, "... requirements on the industrial

entities currently regulated by the Cap-and-Trade program to each reduce their GHG emissions at a rate to be determined. (Concept Paper, page 24.) A set of facility-specific targets that reduce over time clearly requires higher cost emission reductions, and even implies emission reductions that are infeasible or carry very high costs to the State. For example, if this facility-specific target structure applies to utility power plants (and this is not clear to SMUD from the description), the required measures may imply reduction of power generation at a time when critical facilities need to generate to keep the lights on. SMUD does not want to be in the position of deciding whether to keep the lights on and violate the regulation or comply with the regulation and have vital electric services to our customers challenged. This concept path also involves more aggressive policies to address short lived climate pollutants, and SMUD is not confident that this more aggressive policy is feasible by 2030.

If the ARB decides on or is pressured into a non-market-based structure, Concept 3: Ambitious Complementary Policies without Cap-and-Trade; a Focus on Transportation has significant advantages over Concept 2. This concept focuses the complementary measures on the transportation sector, which produces today the greatest amount of GHG emissions – and where reductions must occur in order to achieve the longer-term 2050 goal. Industrial entities (including power plants) may be faced with taking additional, but, “... cost-effective and technically feasible ...” measures to reduce emissions, but would not face facility-specific targets that challenge cost-effectiveness and technical feasibility.

Thanks for the opportunity to comment.

/s/

WILLIAM W. WESTERFIELD, III
Senior Attorney
Sacramento Municipal Utility District
P.O. Box 15830, M.S. A311, Sacramento, CA 95852-0830

/s/

TIMOTHY TUTT
Program Manager, State Regulatory Affairs
Sacramento Municipal Utility District
P.O. Box 15830, M.S. A313, Sacramento, CA 95852-0830

cc: Corporate Files