September 19, 2016
LEG 2016-0595

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

SMUD Comments on Proposed 2016 Cap-and-Trade Amendments

Thank you for the opportunity to submit comments about the proposed 2016 Cap-and-Trade Amendments (Proposed 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 also supports the comments filed by the Joint Utility Group, covering the following key themes:

- A well-designed Cap-and-Trade Program to help the state achieve its post-2020 goals.
- Continuing consideration of the customer 'cost burden' principle is the right approach to determining utility allowance allocations, but the application of that principle should not be narrowed from the current application up through 2020.
- It is important that functional cost containment continue to be an important element of market design.
- Regulatory certainty is necessary to guide investment and recognize ongoing utility efforts to reduce emissions, such as the RPS Adjustment and Voluntary Renewable Energy (VRE) Program.
- Meaningful linkages with other jurisdictions should be pursued.
- Inter-agency coordination is necessary to ensure that policies seeking to reduce greenhouse gases from the electric sector are complementary.

In addition, SMUD provides the following detailed comments.

A. Allowance Allocation to Electric Distribution Utilities

SMUD appreciates the continued administrative allocation of allowances to electric distribution utilities (EDUs) on behalf of their ratepayers, as described in workshops leading up to the Proposed Amendments (the detailed allocation structure is not yet included in the regulatory language). SMUD generally supports the basic allocation

structure that has been presented by ARB staff, with some exceptions and recommended changes:

- SMUD supports the basic EDU allocation starting point in 2021, based on the current 2020 allowance allocation, and modified by a one-time "true-up" of cost burden or compliance need to reflect changed circumstances and by the 2021 cap factor, but thinks that this should include some recognition of the investments made by EDUs and their customers in energy efficiency and distributed generation resources.
- SMUD generally supports the basic allocation methodology for 2022 through 2026, in which the 2021 allocation is reduced to reflect the declining cap and the ending of specific high-emitting contracts.
- SMUD supports providing coverage for electrification, and continued dialogue with ARB staff and stakeholders about how this should be structured.
- SMUD recommends consideration of transitioning to a "cost-burden adjusted" sales-based "allocation structure that would continue a cost-burden component in a sales-based structure that is similar to the "benchmarking" concept used for industrial covered entities.
- SMUD does not support removing allowances from the basic EDU allocation to reflect the carbon costs embedded in electricity used by covered industrial entities.

Recognition of Energy Efficiency and Distributed Generation Investments: SMUD understands that one reason ARB staff is considering a "true-up" of the cost-burden allocation approach in 2021 is that statewide retail sales are now forecast in 2020 to be significantly less than the retail sales forecasts underlying the 2013-2020 allocations. Two of the main reasons for these lower forecasts are the significant investments in energy efficiency programs and distributed generation resources made by the EDUs and their customers.

SMUD suggests that cutting the allocation of 2021 allowances significantly below 2020 allowances represents a disincentive for continued energy efficiency and distributed generation investments. One of the reasons utilities invest in measures that will lower sales is to lower their carbon obligations, and cutting allowance allocations dramatically to reflect lower sales challenges the incentive to invest. Prior to 2020, EDU investment in these measures reduces their obligation in relation to their allocated allowances, but that benefit is not preserved by cutting allowances in 2021.

SMUD suggests that if allowance allocation to EDUs is "adjusted" in 2021 to reflect lower expected retail sales, a component should be added back to preserve the incentive for investment in energy efficiency and distributed generation.

Additional Allowances for Electrification: SMUD appreciates the ARB staff consideration of adding allowances to EDU allocations to cover additional load and

emissions from electrification. Broad substitution of electricity for combustion of fossil fuels is an essential measure for achievement of Governor Brown's goal of a 50% reduction in petroleum use in vehicles by 2030. It is well established that electrification will reduce GHG emissions because it would result in a greater decrease in emissions from the sectors or end-uses being electrified than the increase in emission from additional electrical load. Nevertheless, utilities might hesitate to spend heavily on electrification if their increase in emissions is not covered by allowances in the Cap-and-Trade program.

However, a proposal that requires metering of the additional load from electrification of transportation, or some equivalent demonstration of this load, could prove to be a barrier. Most electric vehicles are currently charged at home, using a dedicated circuit or a simple normal outlet, neither of which is typically metered separately from the house as a whole. Requiring a separate meter for demonstration of the additional load would be an unnecessary expense. ARB should be comfortable relying on the demonstration and verification of increased electric load through conservative estimation that is used to provide Low Carbon Fuel Standard (LCFS) credits in that program. It would be efficient for the Cap-and-Trade Program to take advantage of the same methodology as this complementary program, and wasteful if the Cap-and-Trade Program rejected a methodology that is fully accepted by a sister program at ARB. The dramatic reductions of GHG emissions on the transportation side of the ledger (approximately 4 times the increases in emissions in the electric sector) is more than sufficient to support the concept that the barrier on the electric side can be removed by providing allowances based on a simple, cost-effective structure that does not require metering or the equivalent.

Electrification of other end-uses, such as water heating, space heating, etc. is considered necessary by many academic studies to achieve the State's long-term GHG goals. Once again, while likely less significant in magnitude than transportation electrification, it is not cost-effective to separately meter this load increase for purposes of demonstration of the load to receive allowances. EDUs could provide an estimation here similar to that for electric vehicles, based on a demonstration of the penetration of electric technologies for each end use, and the standard end use intensities (EUI) that are used in forecasting models and energy efficiency programs for various technologies (such as a heat-pump water heater that has a specific rated efficiency). While individual installations can use different amount of electricity depending on consumer behavior, etc., these standard values are sufficient to provide good estimates of the electricity load involved. Verification would then simply be verification of installation or penetration of the technologies – how many were installed – rather than a complicated statistical analysis of before and after electricity use or some system of individual meters for each appliance.

In both cases, for transportation and for other end-use electrification, SMUD again suggests that an alternative is to use a basic sales-based allocation overall for the electric sector, or a transition to such an allocation structure by 2030. This allocation structure automatically includes the increased load due to electrification, so relieves the

EDUs and ARB from coming up with a method of demonstrating and verifying the electrification load separately from retail sales on an annual basis. It also automatically incentivizes lower-emitting grid generation, since allocations based on sales do not decrease as an entity shifts to lower emitting resources to serve those sales.

However, SMUD recognizes that a pure sales-based allocation structure is a significant departure from the current "cost-burden" structure for EDUs, and may not be seen as viable for EDUs that do not have significant legacy zero-emission resources (hydro and nuclear). Hence, SMUD suggests that the ARB consider development of a "cost-burden adjusted" sales-based allocation structure. In this concept, the sales supported by average-year generation from legacy zero-emitting resources and the 33% renewable portfolio standard would be identified for each EDU. This constant amount would be subtracted from the annual retail sales of each EDU, just like in the current cost-burden approach, and the remaining sales (with a cost-burden), would be multiplied by an emissions factor that reflects the cost-burden of these remaining sales (e.g. a natural gas default emission factor). This concept includes an annual "true-up" into the current cost-burden allocation structure, and so automatically covers the increased cost-burden from electrification. In step form, the allocation structure could include the following:

- Identifying the average annual sales supported by hydro and nuclear resources for each EDU and 33% renewables.
- Subtracting that number from each EDUs verified retail sales from the last year available.
- Adding a component to provide an incentive for continued energy efficiency and distributed generation investment (since measures that reduce retail sales would be disfavored). This component could be based on the EDU's adopted target for EE savings, along with average annual DG installations.
- Multiplying by an emission factor that reflects the cost-burden of generating with emitting resources (e.g. the natural gas default emission factor).

SMUD recognizes that this concept needs further discussion, but believes that it has promise for widespread acceptance and for automatic coverage with additional allowances for the cost-burden of electrification.

Industrial Allowance Allocation Related to On-Site Electricity Use: SMUD opposes the proposal to reduce EDU allocations in relation to the amount of electricity supplied to industrial covered entities being served by each EDU. The intent of providing administrative allowances to EDUs was for ratepayer protection, to cover the obligations the EDUs pass on to their customers (in addition to the costs of complementary programs). EDU ratepayers include industrial covered entities, who deserve the same ratepayer protection as other customers. There is no reason to shift the allowances for this purpose from the EDUs to their industrial customers.

With regard to IOUs, the process at the CPUC for determining how to return allowance revenue to industrial customers has been complicated to develop. However, that work

has now been completed and industrial covered entities will now receive bill credits or rebates from allowance sales, just like residential customers. Accordingly, there is no need to develop a new way to compensate these customers through a dramatic shift to an entirely new structure for treatment of EDU and industrial sector allocations. Such a change is not necessary or prudent. It could cause delays in getting compliance costs related to electricity prices returned to EITE entities, particularly for industrial covered entities in POU service areas.

POUs already return compliance costs to these industrial customers through lower electricity rates, and changing policy now would require POUs to change rates for industrial covered customers. Thus, implementing a new structure for POUs (and IOUs) as proposed will lead to new processes and could cause market uncertainty among industrial entities about how their costs may be "covered" or reflected going forward.

The staff proposal does not provide industrial customers with the same protection from Cap-and-Trade costs because a direct award of allowances won't necessarily cover all of their costs. Thus, the goal of keeping these businesses in California may not be met by this regulatory change. Consequently, the current design should be maintained for the following reasons:

- Fairness and simplicity. All industrial customers have costs covered with the same structure, as opposed to one structure for covered entities and another for non-covered entities;
- The staff proposal would not cover actual carbon costs imbedded in electricity rates and returned to all customers (for POUs) as changes in the electricity mix change those costs over time.
- The current system reflects the cost differences between service areas in the state, the staff proposal does not – hence, the staff proposal may lead to unintended movement of industrial customers among utilities with no benefit to the atmosphere.
- It will be difficult to equate new industrial customer allowances with their actual emissions, which could lead to surplus allocations. Under the proposed rule, industrial customers have no obligation to use those surplus revenues for AB 32 purposes, thus depriving the State of an important source of funding for carbon reduction.

In summary, SMUD opposes removing allowances from the EDUs and providing a related amount of allowances to covered industrial entities. The proposal is complicated and unnecessary.

B. Continuing The RPS Adjustment

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 it is possible to use the RPS Adjustment as intended, and strongly encourages its

continuance. We have used the RPS Adjustment in the past 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.

SMUD notes that since the current treatment of RECs and null power was developed in 2010 or so, there have been dramatic changes in the complementary RPS policy in the state. The RPS has been altered from a 20% requirement to procure renewable generation that did not clearly apply to all EDUs in California and that did not clearly allow compliance with unbundled RECs and firmed and shaped contracts from outside California to a 50% requirement that applies clearly to all EDUs in the State and explicitly allows compliance using firmed and shaped contracts with delivered substitute power and with unbundled RECs. SMUD believes that the RPS program remains a “complementary program” that is intended to provide emission reductions from renewable procurement, leaving fewer emissions that must be covered in the Cap-and-Trade Program. The ARB should make every effort to conform these two important policies as they are modified over time, and it is essential that the dramatic changes in the RPS in California be considered as carbon policy is updated.

Procuring renewable power by definition involves procuring a zero-GHG (or low-GHG) resource. There are many instances where a Cap-and-Trade 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 in Cap-and-Trade.

SMUD suggests then that ARB take the opportunity presented by the current questions about the RPS Adjustment and ‘direct delivery’ to revise the Cap-and-Trade structure to be more consistent with the RPS program and standard understandings of RECs in California, rather than remove the RPS Adjustment as proposed. 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 Adjustment allows the Cap-and-Trade structure to recognize the zero-emission nature of the renewable procurement when it occurs in an uncapped jurisdiction. There is the potential for double counting of emission reductions if the underlying renewable power is also delivered to California with a zero-emission

signature. The solution that has been proposed by the JUG is simply to not allow the underlying renewable power to be delivered to California without the associated RECs. This works, and appears to address the most significant of ARB concerns. SMUD believes that ARB should structure the restrictions on the RPS Adjustment to allow the underlying renewable energy to be 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.

C. Voluntary Renewable Electricity Program

ARB staff proposes to stop setting-aside allowances for the Voluntary Renewable Electricity (VRE) program in the post-2020 compliance periods. SMUD believes that ARB is acting prematurely on this issue, and supports a continued VRE set aside allocation post-2020.

SMUD relies on the VRE program to ensure promised carbon reductions to our popular Greenergy voluntary renewable program. SMUD suggested in one of the preliminary workshops last fall that ARB should be prepared to expand and extend the VRE program given the potential for new voluntary green pricing participation pursuant to SB 43 and more recently SB 350. It was just this year that the IOUs received permission from the CPUC to establish their voluntary green pricing programs pursuant to SB 43. Depending on the uptake of voluntary solar procurement under these new programs, similar programs now facilitated by SB 350 at POUs, and the ARB staff proposed changes allowing easier participation by distributed solar participants, the VRE allocation as it stands could be fully used by 2020. In SMUD's case, our Greenergy program is seeing a period of rapid expansion, with participation increasing by more than 50% in the last year or so.

ARB's contention that the VRE program is undersubscribed is based on only two years of program operation that occurred before the new programs and recent growth. ARB should await more information about how this expected growth impacts VRE program participation before determining that no further set aside is required. Otherwise, ARB runs the risk of stopping the growth of, and even causing declines in, these clean energy options as consumers realize their voluntary efforts are not providing GHG reductions as expected.

SMUD would support funding the VREP post-2020 at the same level as in 2020 using allowances that have remained unsold in the Cap-and-Trade auction for a period of two or three years.

D. Allowance Value And Use Clarifications

SMUD supports including the prohibition of the use of allowance value to cover basic program costs (MRR, COI fees, etc.), in addition to the current prohibition of use to cover obligations from sales into the CAISO, as seen in the Proposed Amendments.

However, SMUD does not believe that there should be an explicit prohibition for POUs from returning allowance "proceeds" (the revenue from the sale of the allowances provided) in a volumetric fashion to ratepayers. ARB has stated that they do not intend to monitor or regulate POU rate structures or proceedings, nor do they intend to direct the CPUC's ratemaking authority on this issue. SMUD suggests that ARB should not establish an explicit prohibition that it does not have the authority to enforce, as that will likely just elicit market confusion.

At the very least, here, clarification is in order. POUs that consign allowances to auction are allowed to use the proceeds from those sales to purchase allowances at auction or on the secondary market, and are also allowed to simply retire those allowances to cover their compliance obligation. The ARB should clarify that such retirement does not constitute "Returning allocated allowance auction proceeds in a volumetric manner..." and is not prohibited by Sections 95982(d)(3) and (5).

SMUD also suggests that the ARB consider a change to how allowances consigned to auction that remain unsold are handled. Currently, these consigned allowances remain in the auction pool for sale at the next auction. SMUD suggests that ARB should allow the consigning entities to instead place unsold allowances directly into their compliance accounts. This change will address a problem faced by entities that are required to consign their allowances (IOUs) or that have chosen to do so (POUs, in some cases) when those allowances remain unsold for multiple auctions. The problem is that these entities continue to face compliance costs, but are delayed indefinitely in getting the auction revenue intended to offset those compliance costs.

E. Cost-Containment In the Post-2020 Cap-and-Trade Program

Keeping Cap-and-Trade costs reasonable is extremely important for the long-term viability of the program. While the initial years of compliance experience in the Cap-and-Trade Program have seen reasonable compliance instrument prices, SMUD does not believe that this experience should lead to complacency about prices in future years. Market projections have indicated a potential tightening of demand/supply conditions after 2020, where the proposed increased decline in the cap year to year has the potential to lead to increased upward price pressure. To prepare for this eventuality, SMUD has some specific cost-containment recommendations below.

Modifications to the APCR structure after 2020: SMUD supports the components in the Proposed Amendments that add to and alter the APCR structure by:

- leaving any unused allowances in the current APCR in place after 2020;
- allocating after 2020 to APCR based on the comparison of expected actual versus capped emissions in 2020;
- collapsing the APCR from three Tiers at present into a single Tier, *but tied to the lowest current APCR Tier price rather than the highest*; and

- setting the single-Tier APCR price using a fixed, real, premium over the annual Auction Reserve, or floor price.

It is important to maintain and expand the APCR to afford continued market protection against significant price increases. If the APCR is ever accessed, injecting all of the allowances into the market at one price is likely to have a stronger stabilization effect than having three separate price tier "injections" (as the APCR is currently structured).

Adding Unsold Allowances to the APCR: SMUD does not support the proposed addition of allowances into the APCR that remain unsold at auction for two years. SMUD is concerned that this could have a counterproductive impact on carbon costs in scenarios where these allowances have been removed from the market at current prices and the demand for allowances in some future year picks up sharply. This could cause market prices to shoot right through the APCR soft target into uncharted and politically unpopular territory. The unsold allowances should be available to the market at lower than APCR prices, as intended, even if the fact that they remain unsold for two years is indication of current oversupply.

SMUD suggests that rather than placing these unsold allowances in the APCR, the ARB simply "re-vintage" them to be placed back in the market three years after they have remained unsold (e.g. changing an allowance with a 2016 vintage to one considered as having a 2021 vintage). The re-vintaged allowances can either remain in the market, and made fully available for appropriate advance auction or be removed by ARB and made available as part of the 10% allocation normally included from a vintage in the advance auction. Either way, the allowances remain part of the normal Cap-and-Trade marketplace and are available at normal market prices upon reentry. This should address conditions of oversupply in one period while still including the expected amount of allowances available in subsequent periods when such oversupply has potentially reversed, and market demand supports the supply of allowances.

Additional Leading and Lagging Cost Containment Measures: SMUD also supports consideration of adding the following cost-containment measures:

- Including the ability for covered entities to use a limited amount of future vintage allowances for compliance in the current compliance period. Multi-year compliance periods provide compliance flexibility, but the end of a compliance period still represents a source of instability in the Cap-and-Trade structure. Currently, entities are limited to using only current vintage and past vintage compliance instruments for any compliance event. For the 30% annual surrenders in the early years of compliance periods, this is not a significant market constraint. However, in the final year of a three-year compliance period, the entire period must be made whole with these vintages of compliance instruments, and if demand here stretches supply, prices will inevitably reflect the market tightness. When the limited future-year allowances out in the market are not allowed to be used, they will likely be valued at substantially lower prices in the near-term, reflecting the looser

market conditions that will occur at the beginning of the next compliance period. There is a set of market conditions that may result in a three-year sine-wave in market prices, rather than a stable or a stably increasing long-term price trend. Such a pattern almost certainly will negatively affect investment decisions in emission reducing practices, exacerbating the tight market conditions over time.

- A broader concept of "overlapping" compliance periods, where the vintage 2018 allowances that have been allocated prior to the early November compliance period surrender "event" could be available for compliance, again at a premium. Note that not all of the 2018 vintage allowances would be available, as some are auctioned off in the fourth quarter auction every year, too late for the surrender event. The ARB can alter the Cap-and-Trade regulations to increase the allowances held for the final auction if desired. SMUD sees this overlapping concept as providing a market price smoothing effect between compliance periods, without really borrowing from future periods, since the allowances have been allocated or sold in the market prior to the surrender event.
- Finding a way to apply the 8% offset limit to facilitate full use of offsets up to 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 that the ARB either: 1) allow entity's to "carry over" any unused portion of the offset limit across compliance periods; 2) spread unused amounts over the broader market so that the limit is fully used; or 3) establish an "offset-limit bank" in which unused portions of the 8% limit could be offered up as the APCR is accessed – essentially extending the concept of holding back some compliance instruments to be released when/if prices get to the APCR level.
- Exempt from the offset limit any offsets that provide in-state ancillary environmental benefits similar to actual reductions at capped sector facilities, by offering more of the following benefits: 1) a direct reduction or avoidance of any criteria air pollutant in California; 2) a direct reduction or avoidance any impacts on water quality in California; 3) a direct alleviation of a local nuisance within California associated with the emission of odors; 4) direct environmental improvements to land uses and practices in California's agricultural sector; 5) direct environmental improvements to California's natural forest resources and other natural resources; and/or 6) a direct reduction of the need for mitigation of the impacts within California of rising global greenhouse gas emissions.
- Streamlining of offset policy while maintaining offset integrity that allows compliance entities (particularly smaller entities) to access offsets up to their current limit. For example, the buyer liability aspect of most offsets imposes a

market risk that prevents many from considering the offset alternative, even with market-insured "golden" offsets. SMUD encourages ARB once again to move away from buyer liability in current and future offset protocols.

- Including Sector Based offsets. SMUD appreciates the efforts that ARB staff has undertaken to start including Sector Based Offsets in the Cap-and-Trade Program, and the stated intention of continuing to pursue such inclusion, even while not being able to include in this rulemaking.
- Increasing the conformance between the RPS and other complementary measures to lower demand prior to market prices rising to APCR levels. Some renewable procurement allowed under the RPS does not result in a lowered carbon obligation, which reduces the cost-containment impact of the program. This goes back to maintaining or even enhancing the treatment of RECs to reflect the impact on the atmosphere in the carbon obligation.

F. Energy Imbalance Market Proposal

SMUD does not support the proposed addition of an emission obligation for load procured through the Energy Imbalance Market (EIM). This is a carbon obligation that is simply imposed, is uncertain in quantity, and has no direct relation to the actual conscious procurement of the EIM participant. As such, it is strikingly different from any other choice in the Cap-and-Trade electricity space – when an entity procures any other electricity product, the carbon obligation is known and clear and can influence the procurement choice. This will act as a deterrent to consideration of participating in the EIM. In addition to dampening participation, an after-the-fact "uplift" charge like this is certain to distort optimization of procurement in the EIM market, since it is not a cost or factor imposed during market dispatch.

G. Eligibility For Allocation

At the March 29th workshop, ARB staff described the current methodology for direct allocation to the electric, natural gas, and industrial sectors. A common part of direct allocation in all three sectors is the requirement that in order to be eligible to receive the allowances calculated for each sector (and entity), an entity must: 1) comply fully with the mandatory reporting regulations (MRR) by reporting emissions and other data as required; 2) receive a positive or qualified positive verification statement pursuant to those MRR regulations; 3) fulfill all requirements for information submission necessary to receive direct allowances by the specified deadlines in the Cap-and-Trade Regulation; and 4) have an active CITSS account.

SMUD has two concerns. First, SMUD is concerned that small discrepancies in an entity's performance in MRR compliance or verification results may subject an entity to complete loss of direct allowances allocated. An entity clearly must have a CITSS account to receive allowances, but that can be set up relatively simply and quickly. The MRR requirements are voluminous and the Cap-and-Trade regulations are complicated.

Entities should not lose the direct allowances they are entitled to under the methodologies for each sector due to minor discrepancies in meeting every requirement of these regulatory structures. The ARB should clarify that if the eligibility conditions are not met in a particular instance, the ARB will consider whether direct allocations are affected, either partially or wholly, based on the nature of the "violation".

SMUD's second concern is the description that condition 3 above – fulfillment of all requirements for information submission necessary to receive direct allowances by the specified deadlines – appears to be an 'added' eligibility condition that is not in Section 85980 of the Cap-and-Trade regulations. While this may be something similar to needing a CITSS account in some cases (if you don't provide the necessary information, how can CARB provide allowances), in other cases it may be again that a slight discrepancy in information provided or by when that information was provided implies no real impediment to the eventual calculation of and provision of direct allowances. Similar to the first concern, SMUD believes that ARB should be flexible in the interpretation of these questions.

/s/

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

/s/

TIMOTHY TUTT
Government Affairs Representative
Sacramento Municipal Utility District
P.O. Box 15830, MS A313
Sacramento, CA 95852-0830

cc: Corporate Files