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**Via Email: [rsahota@arb.ca.gov](mailto:rsahota@arb.ca.gov)**

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## **SMUD Comments on Potential Post AB 398 Cap-and-Trade Amendments**

Thank you for the opportunity to submit comments concerning amending the Cap and Trade regulations, in response to the March 2, 2018 workshop. SMUD was active in the process that led to the adoption of Assembly Bill 398 and subsequent ARB adoption of the 2016 Cap and Trade Amendments in July 2017. SMUD has long supported an extension of the Cap and Trade Program beyond 2020.

SMUD appreciates the hard work of ARB staff in preparing, on a relatively quick timeframe, to propose ideas for the implement the requirements of AB 398, within a short time, changes to the Cap and Trade regulations.

SMUD has reviewed the Preliminary Discussion Draft (Discussion Draft) and the accompanying Preliminary Concepts Paper on price containment points, price ceilings and allowance pools (Preliminary Concepts Paper), and is submitting the following comments for your consideration:

- The proposed limitations on allowance value will result in viable GHG-reducing projects being disallowed and increasing costs to electricity ratepayers in the state.
- Staff has proposed a ceiling price that is so high that is inconsistent with the intent of AB 398, which may lead to politically infeasible prices in the Cap and Trade program.
- Staff's initial thoughts on price containment point levels also point to prices that are too high to have the intended "speed bump" effect early enough in the program, again leading to potential political problems with the program. In addition, the containment points risk being squeezed together near the price ceiling, significantly reducing their effectiveness and likely causing the "speed bump" effect to occur only once, rather than twice as the Legislature intended.

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SMUD's detailed comments follow.

### **A. Publicly Owned Utility Option To Designate Allowances For Compliance**

In July 2017, Board Resolution 17-21 directed the Executive Officer to consider requiring all Electric Distribution Utilities to consign all allowances to auction and use auction proceeds to further the goals of AB 32 and SB 32. SMUD is opposed to requiring POUs to consign all of their EDU allowances to auction. SMUD believes that the consignment-choice provision of the current Cap and Trade regulations has been working well for five years now, and sees no reason to make this change. A recognized and reasonable acceptable use of administrative allowances is to simply place them in compliance accounts, rather than force the risk of market participation in order to procure allowances for compliance. SMUD appreciates the Discussion Draft keeping this option available for POUs.

In addition, SMUD appreciates the additional flexibility of being able to designate some allowances received administratively to be placed directly in the compliance account of a federal power authority, such as the Western Area Power Authority (WAPA). SMUD has advocated for that flexibility in previous comments, because direct designation is a simple way of covering the obligation from WAPA power imports on behalf of SMUD ratepayers.

### **B. Use of Allowance Proceeds**

SMUD supports guidance in the regulations about which uses of allowance value benefit retail ratepayers consistent with the goals of AB 32. The approach of the Discussion Draft is to list allowable uses of auction proceeds. However, in doing so staff omits a variety of expenditures that are consistent with the purposes of AB 32 (and SB 32) and that would benefit ratepayers. SMUD's overall recommendation is to return to the basic principles in the current regulation (Section 95892(d)(3)), stating that allowance proceeds "... shall be used exclusively for the benefit of retail electricity ratepayers of each electrical distribution utility, consistent with the goals of AB 32, and may not be used for the benefit of entities or persons other than such ratepayers." (Discussion Draft adds the underlined word above).

*Listing of Allowed Uses.* SMUD believes that it would be best to refine the goals and principles around use of proceeds and allowance value rather than attempt to create a comprehensive list in regulation. A specific list will stifle creativity and would surely leave off cost-effective uses in the diverse and changing space of California's various compliance entities and GHG-reducing options. If staff believes that a specific list is necessary then guidance documents, which can be more easily kept up to date, should be used to provide more specific direction if necessary.

If CARB staff desires to include a list of allowed uses in the regulations, SMUD strongly recommends "catch-all" language such as "reasonably designed to reduce greenhouse



gas emissions” or “including, but not limited to, the following approaches”, and suggests that CARB include additional uses to minimize confusion about what may or may not be an allowed use. The proposed language in the Discussion Draft limits expenditures solely to a subset of renewable energy, storage, energy efficiency, fuel switching, and transportation infrastructure, if not returned volumetrically to ratepayers. The omission of education and outreach expenditures, which is vital to changing public attitudes towards a low carbon economy, illustrates the hazard of publishing a closed list. Similarly, other GHG-reducing programs such as promoting zero or low-GHG refrigerants or replacing SF6 equipment with higher cost non-SF6 alternatives are not explicitly included. SMUD also notes that subsection (E) is not really an additional approach, but rather a restriction on the use of expenditures for subsections (A) and (B) – renewables and energy efficiency/fuel switching. This is not an “approach” and should not be listed as such. It also unduly limits “pilots” that could reap cost-effective GHG reductions but which are unproven in the marketplace.

If a list is to be included, SMUD proposes to add the following categories to allow expenditures on:

- Programs that have benefits to or in disadvantaged communities.
- General marketing and outreach about climate change, renewable energy, energy efficiency, etc., including funding institutions that provide an opportunity to educate constituents and ratepayers about these topics.
- Efforts to incent or promote zero or low-GHG refrigerants, which may lower GHG but not necessarily save energy.
- Actions to replace SF6 equipment with zero or low-GHG alternatives, or to reduce leakage rates of SF6.
- Covering above market costs of “grandfathered” renewable contracts that are not Product Content Category 1 or 2 solely due to date of contract signing (meet the criteria, but from earlier contracts).
- The above market costs of Asset Controlling Supplier procurement, to the extent that GHG is lowered by such procurement.
- Research and development projects aimed at reducing future GHG emissions.
- Expenditures ordered by the California Public Utilities Commission (CPUC) or the Governing Board of a publicly owned utility (POU) prior to the effective date of the proposed amendments and disbursed after that date.

*Non-volumetric Return to Ratepayers.* SMUD understands that CARB desires any proceeds from administrative allowance sales to be returned non-volumetrically to ratepayers, if not used for specific GHG-reducing programs or used to procure allowances (both of which benefit ratepayers). However, CARB does not have the authority to determine how POU's set their rates. Ratemaking authority rests solely with POU Governing Boards. The Cap and Trade regulations can certainly convey CARB's recommendation to POU's and their Governing Boards, and POU's and Governing



Boards will consider that recommendation in rate-making decisions, but going beyond that is unlawful and unenforceable. This is another reason to not change the word “may” to “must” in the phrase reading “... allowance auction proceeds ~~may~~ must be used to reduce greenhouse gas emissions or returned to ratepayers.”

SMUD strongly contends that the significant market signals to reduce GHG emissions in the electricity sector are in the wholesale market – by including a GHG cost adder in dispatch and procurement decisions -- and not the retail market, where customers see monthly bills comprised of electricity purchased at a variety of different rates each month (including fixed charges, tiered rates, time of day rates, etc.). Any funds returned to ratepayers, either volumetrically or non-volumetrically, is unlikely to have an impact on consumer behavior. If there is an impact, it likely acts to increase GHG as consumers will have more money to spend, and most importantly is likely to be indistinguishable between volumetric and non-volumetric return. CARB should not be establishing arguably unenforceable regulations that likely have no real-world impact.

**Use to Procure Allowances.** SMUD strongly opposes the proposed limitation that allowance proceeds cannot be used to purchase allowances. The text box on the bottom of page 39 of the Discussion Draft suggests that CARB staff is considering this prohibition, and requests feedback. Moreover, the proposed changes to the text in section 95892(d)(3) give weight to this “consideration”, by changing the word “may” to “must” in the phrase reading “... allowance auction proceeds ~~may~~ must be used to reduce greenhouse gas emissions or returned to ratepayers ...” and by not including the purchasing of allowances among the listed (A) through (E) approaches following the added phrase “...using one or more of the following approaches.”

SMUD strongly contends that use of allowance proceeds to procure allowances for compliance is fully consistent with goals of AB 32. Such use benefits ratepayers, as it allows the option of exchanging the allocated allowances for allowances that can be placed in entity holding accounts, and traded if beneficial to the ratepayers, or used for compliance if beneficial to ratepayers. There is no legislative directive in AB 398 or in AB 32 that prohibits this use. SMUD believes that this proposed prohibition could lead to negative consequences, including rate increases, hoarding of allowances and allowance price volatility. Rate increases may result because the proposal could force POUs to seek other funding for necessary allowance procurement. The proposal also could reduce liquidity in the cap and trade market, causing POUs to designate additional allowances directly for compliance rather than having them available for trading. A plausible scenario could then be that entities who need additional allowances will be unable to find them, causing unnecessary volatility, price spikes, and uncertainty in the market. Such restrictions on trade would run counter to the idea of a cap and trade regulation that is designed to cost effectively achieve carbon reductions by allowing trading under the cap.



### C. Price Ceiling

The Preliminary Concepts Paper signals CARB staff's initial thoughts on the price ceiling required by AB 398. AB 398 gives direction on criteria to consider when establishing the price ceiling, such as the need to avoid adverse impacts on residential households, businesses, and the state's economy, the 2020 Tier prices of the current Allowance Price Containment Reserve (APCR), the potential for environmental and economic leakage, abatement costs, the floor price, and the social cost of carbon. The Preliminary Concepts Paper indicates that CARB staff is also considering internal corporate carbon pricing and a higher value for social cost of carbon than used in the 2017 Scoping Plan Update.

*Level of Price Ceiling:* SMUD recommends that ARB establish a price ceiling that is not so high that it significantly increases the potential for economic and emission leakage, or that it creates a risk of political reconsideration of the Cap and Trade program. SMUD believes that the current APCR is set at a good level for those criteria, and has previously recommended a price ceiling no higher than \$70/ton in 2021. This is very similar to the previously expected APCR pricing in that year (using the previous Tier structure, in nominal dollars). Assuming a continuation of today's inflation, the current APCR structure would yield a potential ceiling price proxy of around \$100-120 in 2030. SMUD opposes any price ceiling structure measurably higher than the above path.

SMUD sees the price ceiling as a mechanism to provide added certainty to market stakeholders that the Cap and Trade program will remain in place even in circumstances where high market demand compared to available supply causes prices to increase rapidly. Without a hard price cap, prices in this scenario could rise to unsustainable levels, leading to Cap and Trade suspension and or even repeal. With a price cap in place, market participants can more confidently make investment decisions as abatement options get costlier, knowing that these investments will pay off. It follows logically that too high a price ceiling – one set at a level that itself risks suspension or repeal if prices reach that level -- upends that certainty. Too high a price ceiling risks suspension or rejection of Cap and Trade and threatens market investment decisions.

This should not be thought of as an academic exercise – this is real world activity in the arguably the most successful carbon market in the world. Studies and analyses of the potential social cost of carbon provide valuable information, but not necessarily the final answer for the price ceiling concept. Knowing the social cost of carbon does not help reduce GHG in the real world if the political reality cannot sustain charges in the economy that give weight to that knowledge.



*Structure, Timing and Mechanics of Price Ceiling.* The price ceiling mechanism is brand new to the Cap and Trade program, and deserves careful thought and development over time. It is perhaps sufficient to get a structure initially in place that can be developed further or modified in later rulemakings, after additional time and thought to consider implications. Initially, SMUD recommends the following concepts or policies related to the structure, timing, and mechanics of the price ceiling:

- CARB should establish clarity between the two different types of compliance instruments to be sold at the price ceiling. AB 398 holds any allowances remaining in the current reserve at the end of 2020 solely for sale at the price ceiling. However, existing allowances differ from those that AB 398 directs ARB to create and sell once they are exhausted in that they: 1) represent compliance instruments within the Cap; 2) are not directed by AB 398 to be sold only "... if needed for compliance;" 3) when sold provide revenue to the Greenhouse Gas Reduction Fund (GGRF), rather than the new mechanism implied by AB 398; and 4) do not come with a directive to ARB to use revenue for at least one-to-one emission reductions elsewhere. SMUD suggests that an auction mechanism similar to the current APCR auctions is appropriate for the "reserve" allowances, while an auction mechanism may not be appropriate for the "when exhausted" allowances.
- Allowances sold at the price ceiling after the reserve is exhausted must be tracked separately, as AB 398 provides specific direction for the revenue from these sales. In addition, since these compliance instruments are to be provided only "... if needed for compliance" and only at the ceiling price, dispersion of these allowances should logically be tied to an actual compliance need. SMUD suggests that ARB only provide these allowances at special times related to the surrender point for a compliance period (just before or even after surrender would be feasible), and in circumstances in direct proportion to each compliance entities demonstrated need. SMUD does not see a need for bidding, and is open to a cash payment or alternative compliance structure.

*Use of Revenue from Printed Compliance Instruments.* If prices in the market appear to be approaching the price ceiling, SMUD strongly supports the environmental integrity provisions in AB 398, which require ARB to use the revenues from selling "additional" allowances in the market to achieve at least a one-to-one reduction in GHG emissions. SMUD supports:

- Early consideration of policies to develop and establish options and projects well before the price ceiling is reached, so that emission reductions can be readily and quickly accessed at that point.



- Ensuring environmental integrity by going beyond one-to-one reductions where feasible;
- Inclusion of well-developed, ready to implement, offset projects such as REDD projects;
- Using the new one-way linkage option in the Cap and Trade regulations to procure and retire compliance instruments from other jurisdictions where appropriate and feasible; and

#### D. Price Containment Points

The Preliminary Concepts Paper signals CARB staff's initial thoughts on the price containment points required by AB 398, re-labeled "price tiers" as part of the "New post-2020 Reserve". AB 398 directs that there be two such price containment points and, as reflected in the Preliminary Concepts Paper, initially funds each tier with just over 40 million allowances (1/3 of current APCR holdings).

*Price Containment Point Price Levels.* SMUD believes that ARB's initial thought on the price containment points implies points that are 1) set too high, and 2) set too close together. A lower price containment tier price of \$70 does not inject supply early enough in the market. A price stabilization event should occur much earlier if prices start to increase rapidly. Prices in the carbon market today have tracked fairly close to the price floor for several years, and market participants and consumers have adjusted to these stable prices. CARB staff understands the benefit of a market that signals a stable but steadily increasing and predictable price in order to facilitate good abatement investment decisions, since many of these investments will have multi-year lead times.

The risk of a rapid rise in prices that is unexpected by the market does not just occur at price levels above \$70 – more than 4 times the level of today's prices. SMUD suggests that a structure that initiates price stabilization at quadruple current prices risks a level of market and political instability for the Cap and Trade program that the price containment points were intended to address. A significantly lower price level for the first "tier" is needed to inject rapid stability in the market.

In addition, the legislature intended there to be two separate price containment actions. An initial \$70 point does not leave much room for a second point that is far enough away from the price ceiling to abate increases before prices rise to the ceiling, assuming the price ceiling is set at a level similar to that what SMUD recommends above. If the price containment points are squeezed too close to the price ceiling level, SMUD believes there is a risk that the market will interpret the price containment structure as essentially one intervention, similar to the singular post-2020 Reserve structure adopted in 2017.

SMUD recommends price tiers that are spread out from each other and from the floor and ceiling prices. SMUD sees no reason not to favor price tier levels that are set at



points approximately one third and two thirds, respectively, of the room between the price floor and the price ceiling. With SMUD's recommended ceiling price of no higher than \$70 in 2021, this implies price containment point prices in that year of approximately \$35 for the first Tier and \$55 for the second Tier. SMUD contends that an initial price containment point that injects supply into the market at just over double today's prices is reasonable.

*Price Containment Point Amounts.* SMUD does not think that the level of initial supply established by AB 398, approximately 40 million allowances each, is sufficient to have the intended market impact of slowing a rapid price run-up for long enough for market actors to make investment decisions and have appropriate abatement actions be implemented. SMUD believes that CARB has the authority to add supply above the amounts in AB 398, and supports ARB taking action to do so. SMUD supports adding additional supply from any viable source because it is unclear that the additional supply set by AB 398 is adequate to make the points as effective as possible.

Taking 52.4 million allowances from vintages 2021-2030 that the adopted Cap and Trade regulations now place in the Post-2020 Reserve and instead spreading those allowances into the price containment points is reasonable, if those allowances are available for that purpose. However, it is not clear that increasing the price containment supply from 40 million allowances to 65 million allowances each in a Cap and Trade market where the normal annual supply is approximately 300 million allowances in the first part of the next decade will provide a robust "speed bump" sufficient to moderate prices over the several years needed for abatement investments to occur.

The option raised by CARB Staff of distributing an additional two percent of allowances from budget years 2026-2030 into the price tiers, as a reflection of the offset limit being raised from 4% to 6% in those years, provides a much lower injection of additional supply, about 22 million allowances. In SMUD's mind, this amount does not measurably change the expected impact of the speed bumps.

SMUD supports robust price containment points, or "speed bumps", that will act to inject sufficient supply quickly into the market to constrain a rapid rise in allowance prices. In order to achieve market expectations of robust speed bumps, SMUD recommends adjusting the "vintage borrowing" provision in the Cap and Trade regulations to ensure robust price containment points. Currently the Cap and Trade regulations allow ARB to continue selling allowances at the highest APCR Tier price (now the singular APCR price), by borrowing 10% of the allowance budget from future vintages or budget years (starting with vintages farthest out in time). However, with the new price ceiling mechanism required by AB 398, the Cap and Trade Program no longer needs borrowing at the ceiling, since AB 398 makes additional compliance instruments available at the ceiling price. SMUD suggests that ARB transfer the vintage borrowing concept to the price containment points, establishing that at each of these points supply can continue to be injected by borrowing up to 5% of future vintages or allowance budgets. Doing so will imply sufficient supply available to promote the price stabilization



envisioned by the containment point concept. At the same time, if the price containment points are not triggered, the allowances remain available in the original vintage years.

*Structure, Timing and Mechanics of Price Containment Points.* The Preliminary Concepts Paper proposes that the existing APCR rules – auction structure, timing, etc. – could be used, with some modification, for the new post-2020 Reserve (price tiers) after 2020. The price containment tiers have significant differences in potential price levels and other aspects than the singular Post-2020 Reserve in current regulations, particularly the requirement in AB 398 that allowances procured from this supply source be used only for compliance. Again, similar to the price ceiling, SMUD suggests that these new components of the Cap and Trade Program deserve careful thought and development over time, but as this structure is envisioned as being accessed well prior to the price ceiling, there is less opportunity for that deliberate process. Initially, SMUD recommends that:

- Depending on the price levels and funding amounts eventually chosen for the price containment points, CARB should consider a trigger level for the price containment points that is closer to the actual price levels. Sixty percent of the lower tier price could be as low as \$20 per ton if the lower tier price is around \$35 as SMUD is suggesting. This may be too low a market price to bring in the Tier procurement opportunity.
- SMUD believes that an auction once a year is likely sufficient, with timing linked in some fashion to compliance event timing, in light of the “only for compliance” requirement in AB 398.
- With respect to the protocols to address the “only for compliance” constraint, SMUD recommends minimal restrictions on containment purchases. This price containment point supply happens in the midst of the market, not at the ceiling, and there could be adverse market impacts if there is a lot of new supply with significant use restrictions.

## **E. Additional Cost Containment Measures**

SMUD reiterates recommendations that the ARB should continue to develop and consider policies that decrease the demand for allowances, such as electrification, and policies that provide supply flexibility when needed in order to foster stable market prices at levels much lower than the price ceiling. The best market structure is one where the price ceiling influences the market but is never reached.

Since the Cap and Trade program has been stabilized by court rulings and legislative action, and will more than double in duration, SMUD suggests that it is appropriate for



the ARB to consider structural changes that may have been difficult to include in the initial Cap and Rulemakings. These include:

- Additional electrification measures to reduce demand for allowances;
- Policies that ensure that the amount of offsets allowed under the lowered and constrained offset limit can be fully utilized in the market, such as offset banks, offset limit trading or spreading, etc.; and
- A limited amount of banking to smooth the transition between compliance periods.

#### **F. Banking and Oversupply**

- In particular, SMUD strongly opposes any action to devalue or establish expiration dates on currently held allowances

SMUD appreciates that the Discussion Draft does not include any changes to the existing Cap and Trade banking rules. As an electric utility subject to significant swings in zero-emission, hydroelectric generation between “wet” and “dry” years, SMUD understands the need for flexible banking rules. SMUD strongly prefers the current banking structure in the Cap and Trade program, whereby an allowance of one vintage can be used in any subsequent vintage year – unlimited banking. This provides the flexibility needed to ensure compliance as hydroelectric generation varies from year to year while at the same time protecting against the risk that compliance assets – allowances – are not stripped of value in the market. As banking revisions are considered, SMUD suggests that compliance entities be grandfathered under current rules. SMUD also agrees with CARB staff that the holding limits in the Cap and Trade regulation act as a reasonable limit to excess banking.

AB 398 also requires ARB to evaluate and address concerns about “over-allocation” in the number of available allowances for the years 2021 to 2030. These concerns stem from the perceived surplus of allowances in comparison to obligations in the market today. SMUD agrees with ARB staff that the current conditions indicate that the Cap and Trade market is working as intended. The State is on track to achieve the 2020 target established by AB 32 early, and the banking of current surplus allowances will not threaten achievement of that annual target in two years. The SB 32 target in 2030 is sufficiently far away that ARB can afford to take a “wait and see” approach. There is no need to make an early and significant correction to the provided allowances going forward. It would be a mistake to significantly reduce future allowance budgets today only to find out in 10 years that demand is then exceeding the reduced supply and the market is pushing the price ceiling.



It remains speculative that there may be too many allowances available in 2030, since over the next 13 years there are many factors that will play out to affect demand for allowances versus the current supply, including but not limited to:

- Strong economic growth – the 2009 recession was one reason for lower than expected allowance demand at the beginning of the Cap and Trade program, but today California’s economy is expanding rapidly;
- Linkage with Ontario – the new linkage with Ontario is expected to increase demand for allowances in comparison to supply – as acknowledged by the Ontario representative at the October 12th workshop.
- Potential linkage with other jurisdictions – there is speculation that some other Western states may consider joining the Cap and Trade program, and it is not clear what the demand/supply impacts of the increased market scope would be at this time;
- Potential triggering of the new “one-way” linkage option – even without a full linkage to the California/Quebec/Ontario market, other jurisdictions may begin to procure and retire California allowances through the new “one-way” linkage established in the adopted July regulations;
- Placing of allowances into the APCR – AB 398 and the adopted July regulations require that allowances that remain unsold for more than 24 months be transferred to the APCR, where they will be unavailable to the Cap and Trade market until and unless market prices bust through the pending price containment points and reach (or at least approach) the price ceiling; and
- The potential for reduced hydroelectric generation in future years, due in part to the impacts of Climate Change on California weather.

SMUD understands that one reason for the requirement in AB 398 to analyze over allocation was concern that a lingering amount of excess supply would be available in 2030 and use of that “bank” in that year would challenge achievement of the 2030 target of GHG emissions 40% below 1990 levels. ARB should not be overly concerned about this possibility, for the following reasons:

- Compliance entities will not increase emissions in 2030 simply because banked allowances are available. Increases or decreases in emissions over time are based on the price of allowances versus the cost of abatement, not the existence or size of a “bank”.
- Compliance entities will expect the Cap and Trade program to extend beyond 2030, and see any bank they have as ensuring the ability to comply in the long run, rather than having a 2030 “use it or lose it” aspect.



- The impacts of GHG emissions are related to cumulative amount of CO<sub>2</sub>e in the atmosphere, rather than the specific amount released in 2030. If lower emissions in the years leading up to 2030 result in an available “bank” in that year, that’s a good thing because emissions have been reduced sooner. Flexible banking rules encourage such early reductions.

Some stakeholders have suggested other methods for dealing with the perceived oversupply concern, including devaluing pre-2021 allowances in private accounts in the post-2020 period and placing expiration dates on banked allowances. SMUD is strongly opposed to any devaluation of existing banked allowances. That represents an unfair “taking” of value that was acquired and banked in good faith, with full expectation of the value envisioned at the time. SMUD also opposes placing expiration dates on banked allowances, as that is likely to create complication but have little to no real impact, as obligated entities will continue to use a standard “first-in, first-out” surrender policy. To the extent that any entity ends up for some reason losing the value of a banked allowance due to expiration, that is again an unfair “taking” of value.

### **G. Transportation Related Load Growth**

Board Resolution 17-21 directed the Executive Officer to continue to evaluate appropriate quantification methodologies for additional EDU allowance allocation to reflect the increased “cost burden” to EDUs associated with transportation electrification load growth. SMUD takes the opportunity here to reiterate support for consideration of additional allowances for transportation electrification, and believes that ARB staff should also consider additional EDU allocations to cover additional load and emissions from non-transportation electrification (as required by SB 350).

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. Electrification of the transportation sector will reduce GHG emissions overall because on a miles travelled per ton of CO<sub>2</sub>e emitted basis there are substantially greater decreases in emissions from the transportation sector than there are increases in emissions from the electric sector (approximately 4 tons decreased in transportation for every ton increase in the electric sector). Despite this favorable trade-off, the EDU sees an emission increase and the additional compliance cost, as well as the cost of additional infrastructure. These EDU “costs”, if not offset, act as a drag on EDU investment in electrification.

SMUD hopes to work with ARB staff to avoid a structure that will require expensive and infeasible documentation of electrification load growth in order to receive additional allowances for increased electrification. SMUD remains concerned that there is a view by Staff that the additional load from electrification must be metered incrementally, or verified through some equivalent demonstration of this load, no matter how small the load or what the costs of this demonstration are.



Requiring load growth from transportation electrification to be precisely measured seems to simply ignore the dramatic reduction in overall emissions – as if the electric sector emission increases are independent of the transportation sector decreases. In point of fact, if overly strict requirements for documenting electric load growth are implemented, the State could lose some of the dramatic transportation sector reductions. The situation is completely different than allocations to industrial entities which are based on documented production from a facility, but with no commensurate 4-1 emission reduction in another sector.

#### **H. Industry Assistance Factors**

SMUD supports the ARB Staff's conservative position on industry assistance factors for the 2018-2020 compliance period. SMUD agrees that keeping assistance factors at 100% for these years, as they were in 2017 and will be again per AB 398 in 2021, avoids potential market disruption. Moving down to the 75% and 50% assistance factors put in place for this period prior to passage of AB 398 makes little sense, and brings the unnecessary risk of emissions and economic leakage. SMUD supports the new policy as a valuable tool to keep our industrial customers in the Sacramento area.

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cc: Corporate Files