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March 15, 2018

Clerk of the Board
Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Cap-and-Trade Regulation Amendments, University of California

Dear Air Resources Board Members:

The University of California (UC) supports and appreciates the California Air Resources Board's ("CARB") staff proposal to continue to provide transition assistance through the annual allocation of allowances to universities and public sector entities ("UPSEs"). Operational necessities forced UC Berkeley to assume ownership for the combined heat and power ("CHP") facility located on the Berkeley campus. In response to this change, UC respectfully requests that CARB increase Berkeley's baseline emissions for the purposes of calculating annual allocations in recognition of the increased emissions from the campus's assumption of ownership of the CHP facility. A revised baseline will allow Berkeley to receive full transition assistance allowances in years 2021-2030 and to be considered for annual allowances or true-up allocations (in year 2021) for compliance years 2018-2020.

Under the proposal put forth by CARB, UPSEs would continue to receive an allocation based on an established baseline multiplied by the annual cap adjustment factor. UC views this as an appropriate solution, which balances monetary incentives to reduce emissions, while allowing for funds to be redirected toward greenhouse gas reduction efforts. In 2016, this provision saved UC almost $9 million, allowing it to spend the funds on projects that reduced greenhouse gas emissions across the University's ten campuses, as illustrated in the annual reports to CARB.

Continuing under a business-as-usual scenario, however, does not address the altered needs for Berkeley. The CHP facility located on the campus was owned by a third-party, which sold steam to the campus and electricity to the local utility. Berkeley opted into the cap-and-trade regulations in 2015 to receive allowances from CARB under the provisions for UPSEs. Previously, the campus transferred nearly all of the allowances associated with the purchased steam through to the prior owner of the CHP, while using the rest of the allowances to meet the campus's remaining compliance obligations. In July 2017, the contract with the third-party owner ended, as did the contract the third-party had in place to sell the electricity to Pacific Gas and Electric (PG&E). The ending of both of these contractual arrangements required the campus to assume ownership of the CHP to meet its heating and cooling needs. The only economically viable solution was to have the CHP provide steam and electricity to the campus "behind-the-meter."

One result of the change of ownership is that Berkeley's direct emissions and cap-and-trade compliance obligations have increased. At current allowance prices, UC estimates that the annual cost for compliance with the increased emissions from the electrical portion of CHP facility would surpass $1 million. This money could instead be spent on greenhouse gas reduction projects, similar to other UPSEs that operate CHP facilities. Due to the significant financial impact, UC requests that CARB increase its baseline emissions factor for Berkeley to match the treatment of other universities and public sector entities. As a public higher education system, this request is in line with the legislature's stated intent of AB 398 to "minimize costs and maximize the total benefits to California."

With the change in ownership of the CHP, there will be no net increase or decrease in statewide CO_2 emissions. CARB could correct for the allocation of allowances by repurposing the allowances currently given to PG&E as they will no longer purchase electricity from this facility and the cost of these emissions will not be a burden on its ratepayers. Without a change in Berkeley's baseline emissions for annual allocation to reflect the change in ownership and operation of the CHP facility, UC's cost will be borne by students and will inhibit further greenhouse gas reduction investments, undermining the societal benefits of the regulations.

Another concern is that Berkeley's baseline emissions factor would be too low for the third compliance period (2018-2020). To address this problem, UC respectfully requests that CARB retroactively allocate these needed allowances through a true-up allocation in 2021, similar to the true-up allocation under consideration for smoothing out assistance factors to other industry sectors. UC estimates the additional cost related to cap-and-trade obligations for the third compliance period to be approximately $3 million.

UC respectfully requests your consideration of the proposed changes, and looks forward to working with CARB on these issues as updates to the regulations are compiled and approved.

Sincerely,

David Phillips

David Phillips,
Associate Vice President,
Energy & Sustainability

Cc: Richard Corey
Nick Balistreri
Sally McGarrahan
Greg Haet
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