

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Implement the
Commission's Procurement Incentive Framework
and to Examine the Integration of Greenhouse Gas
Emissions Standards into Procurement Policies.

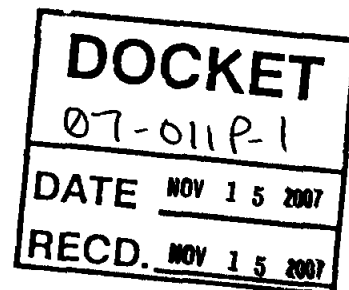
Rulemaking 06-04-009
(Filed April 13, 2006)

**ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION
OF THE STATE OF CALIFORNIA**

In the Matter of

AB 32 Implementation: Greenhouse Gases.

Docket 07-OIIP-01



**SACRAMENTO MUNICIPAL UTILITY DISTRICT'S REPLY
COMMENTS ON THE ALLOWANCE ALLOCATION ISSUES**

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November 14, 2007

SACRAMENTO MUNICIPAL UTILITY DISTRICT'S REPLY COMMENTS ON THE ALLOWANCE ALLOCATION ISSUES

Based upon the direction provided by Administrative Law Judge TerKeurst, the Sacramento Municipal Utility District (SMUD) herein provides comments on two issues discussed in the joint California Energy Commission (CEC) and California Public Utilities Commission (CPUC) workshop held on November 5, 2007 ("Joint Workshop").

- 1) The similarities and differences between the allocation methods proposed by SMUD and the Los Angeles Department of Water and Power (LADWP); and
- 2) The auction structure design in light of the overall California greenhouse gas reduction scheme.

COMPARISON OF SMUD'S AND LADWP'S ALLOWANCE ALLOCATION PROPOSALS

SMUD's proposal was and is a compromise allocation method providing benefits to both high carbon utilities and those with early voluntary reductions. The following table and discussion respond to remarks made at the Joint Workshop that the proposals by LADWP and SMUD are largely the same regarding allocation of allowances. Workshop Transcript at 180. Although there are many similarities, there are also differences. We offer our comments to clarify the differences but not to detract from the similarities. This discussion begins with a side by side comparison of the proposals in a table and follows with a discussion of the differences. SMUD has attempted to accurately portray LADWP's proposal as best SMUD understands LADWP's allocation plan.

COMPARISON OF SMUD AND LADWP ALLOCATION PROPOSALS			
Factor	SMUD's Proposal	LADWP's Proposal	Similarities & Differences
2012 Allocation	<ul style="list-style-type: none">• Historic/grandfather based on 2004 to 2006• Administrative allocation	<ul style="list-style-type: none">• Historic/grandfather based on most recent multi-year available data (pp.2, 19)*	<ul style="list-style-type: none">• Administrative allocation beginning

COMPARISON OF SMUD AND LADWP ALLOCATION PROPOSALS			
Factor	SMUD's Proposal	LADWP's Proposal	Similarities & Differences
		<ul style="list-style-type: none"> Administrative Allocation (pp.2, 6) 	with historic/grandfather
Reductions over compliance period	<ul style="list-style-type: none"> Smooth transition from historic to benchmark by 2020 SMUD defines benchmark as an output based allocation scheme (% of retail sales in the state) 	<ul style="list-style-type: none"> Acceptable hybrid starts with historic and ends with benchmark as the 2020 goal, if – slower reduction in early years for high carbon entities (p.13) 	<ul style="list-style-type: none"> SMUD's proposal uses an output based benchmark for allocations in 2020
Compliance Cap	<ul style="list-style-type: none"> Cap over compliance period between 2012 and 2020 should reflect ability to reduce carbon 	<ul style="list-style-type: none"> Declining annual cap (p.2) 	<ul style="list-style-type: none"> The cap should reflect ability to reduce carbon
New entrants or growth	<ul style="list-style-type: none"> Adjust allocation each year to address new entrants or growth 	<ul style="list-style-type: none"> Create a new entrant reserve (p. 20) 	<ul style="list-style-type: none"> By resetting the allocations each year load changes can be addressed
Period for full transition to benchmark	<ul style="list-style-type: none"> 2012 to 2020, full transition to output based benchmark by 2020 		<ul style="list-style-type: none"> Transition to output based benchmark needs to be complete by 2020
Auction	<ul style="list-style-type: none"> Recommend against auction because regulation will drive reductions If auction is used, begin very small and grow with adequate oversight Participants limited to those who need allowances Auctions add unnecessary costs 	<ul style="list-style-type: none"> Oppose auction (p.7) Auctions add unnecessary costs (p.7) 	<ul style="list-style-type: none"> Auctions will not drive the biggest reductions. Auctions add costs and are not supported

* All citations are to the Opening Comments of the LADWP on the Administrative Law Judges' Ruling Requesting Comments on Allowance Allocation Issues ("LADWP's Comments"), R: 06-04-009 and Docket No. 07-OIIP-01, Dated October 31, 2007.

Similarities between SMUD's and LADWP's proposals

Both SMUD and LADWP recommend against using an auction for the regulated electric utility industry. Both see the auction for the electric utility industry as an additional, unnecessary cost adder. Both recommend starting in 2012 with an administrative allocation of allowances based upon a historic/grandfathered scheme. Both provide allowances for growth and new entrants albeit by different means. LADWP proposes a reserve and SMUD proposes an annual update of the allocations. Both proposal move to a form of benchmark by 2020. But, each has a different definition of the "benchmark" to be used to set the allowance allocation in 2020.

2020 allowance calculation should use an updated output based benchmark

SMUD does not have a clear understanding of LADWP's definition of "benchmark" as used in their "acceptable hybrid" approach. The Administrative Law Judge's Ruling Requesting Comments and Noticing Workshop on Allowance Allocation issues ("ALJ Ruling") provided a definition of "benchmarking" from the Market Advisory Committee.

"An allowance or allocation method to which allowances are distributed by setting a level of permitted emissions per unit of input or output" (e.g. fuel used or sales to customer (lbs)/megawatt-hour or lbs/million British thermal units (MMBtu) (MAC Report, p.90.)

ALJ Ruling at 7. This definition specifically refers to using either fuel use or sales to customer as a basis for calculating the benchmark. LADWP's Comments state in numerous places that any use of a sales based allocation scheme is unacceptable. LADWP's Comments, pp. 14, 16. Therefore, SMUD is unclear about what LADWP means when they refer to "benchmark". SMUD representatives asked representatives of LADWP at the Joint Workshop to clarify what they thought the "benchmark" as they used the term would be in 2020.

Ms. Luckhardt: . . . You were saying that everyone should reach a common benchmark. Did you have a rough calculation of what you thought that could be – that would be?

Ms. Johnson Kowal: I do not.

Recorded transcript of the Joint Workshop of the California Energy Commission and California Public Utilities Commission, November 5, 2007, ("Workshop Transcript") pp. 20-21.

Therefore, SMUD is concerned about adopting or agreeing to a proposed solution where a critical component, how the benchmark will be calculated is unclear.

In order for a true "compromise solution" to work, it must acknowledge both the future expenses faced by high carbon utilities and the investments already made and included in the rates of low carbon utilities. SMUD advocates an allocation of allowances no later than 2020 based entirely upon the percent of electrical energy served in California, retail sales, with updating and adjustments for energy efficiency. In an attempt to clarify the differences SMUD refers to their benchmark as an "output based benchmark". A calculation based upon electric energy served/electric sales is necessary to recognize the early voluntary reductions made by entities like SMUD. Furthermore, moving to an output based benchmark no later than 2020 will also reward reductions in carbon by all entities between now and 2020.

Therefore, although the two methods are similar, the calculation in 2020 of the benchmark is different. SMUD believes by 2020 the entire allowance allocation needs to be based upon an updated benchmark calculated from electric energy served/energy sales or a similar metric that recognizes and encourages early carbon reductions.

The transition to output based benchmark must be a smooth line from 2012 to 2020

The changeover from historic/grandfathered allocation in 2012 to benchmark in 2020 must be a smooth line to treat all entities fairly. To maintain historic/grandfathered allowance allocation throughout the transition period simply rewards high emissions as a means of maintaining high allowances. All entities have been aware of the need to reduce carbon emissions at least since the Secretary of State chaptered Assembly Bill 32 in September of 2006. Official California Legislative Information, Assembly Bill 32 (2005-2006 Legislative Session), Complete Bill History. In essence, all entities have

been on notice and will have had five years to begin to transition to a reduced carbon future prior to 2012. Therefore, the transition to benchmark should not be weighted to favor high carbon entities throughout the compliance period but should instead move smoothly from the historic/grandfathered system to the benchmark system no later than 2020.

Furthermore, by creating a smooth transition, entities that begin reducing their carbon in the initial years are rewarded for their progress throughout the period between 2012 and 2020. Using historic/grandfather throughout the 2012 to 2020 period would provide an incentive to delay carbon reductions. SMUD believes progress toward reducing the carbon in the electricity supplied to Californians should be rewarded by the allocation scheme.

Transition to output based benchmark needs to be complete by 2020

The change over to benchmark by 2020 is especially important given the questions about the carbon reduction strategies for California beyond 2020. Future legislation will most likely dictate the next steps in greenhouse gas reductions for California beyond 2020. The current program needs to be complete by 2020 and ready to take on the next challenge without ongoing transitional issues.

The allocation scheme should be updated each year

Both LADWP and SMUD provide a method for accommodating growth and new entrants. SMUD advocates for an update of the allocation scheme for allowances each year. By updating, new entrants, load growth or load shift between entities can be taken into account. LADWP proposes setting up a reserve to handle these issues. LADWP's Comments at p.20. Under SMUD's proposal, the allocation of allowances would change each year in the transition from historic/grandfathered to benchmark. Therefore, changes or increases in load would be addressed each year and a reserve would not be required.

The declining annual cap has not been fully addressed in these questions

LADWP presents some information about a declining annual cap. SMUD agrees the cap must decline from 2012 to reach the 1990 goal in 2020. How the cap is distributed, calculated and whether it declines in steps or along a curve has not been fully addressed in these questions. SMUD would defer determinations of caps to a future response, but would advocate for a cap that considers the relative ability of each entity to reduce emissions.

**AUCTION DESIGN SHOULD CONSIDER THE BROADER
GREENHOUSE GAS REDUCTION PROGRAM**

SMUD does not support auction of allowances for the regulated utility industry. Should an auction be used, SMUD urges the CEC and CPUC to design an auction in light of the requirements for the entire state of California. Meeting the greenhouse gas 2020 goal for California will take participation from all sectors. The electricity sector is only one part of the solution. Furthermore, since solutions for other industries may be to electrify current operations, just as LADWP is working to electrify ports, any auction scheme needs to take these load shifts and potential reduction opportunities into account. LADWP's Comments at p. 3. Thus, SMUD urges the CPUC and CEC to coordinate any auction design carefully with the California Air Resources Board so consideration of all industries that need to reduce emissions can be adequately taken into account.

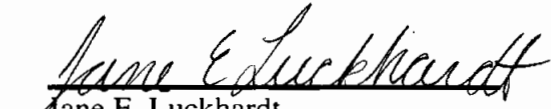
CONCLUSION

SMUD has presented an allowance allocation proposal that in many ways is similar to the proposal presented by LADWP. But, there are important differences between the proposals including the definition of "benchmark". SMUD offers these

comments to foster a better understanding of the differences but this discussion of differences should not detract from the considerable similarities.

Dated: November 14, 2007

Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the attached:

SACRAMENTO MUNICIPAL UTILITY DISTRICT'S REPLY COMMENTS ON THE ALLOWANCE ALLOCATION ISSUES

on all known parties to R. 06-04-009 and CEC Docket No. 07-OIIP-01 by transmitting an e-mail message with the document attached to each party named in the official service list. I served a copy of the document on those without e-mail addresses by mailing the document by first-class mail addressed as follows:

See attached service list

Executed this 14th day of November 2007, at Sacramento, California.


Lois Navarrot

Service List R. 06-04-009, updated November 13, 2007

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