

**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:

Order Instituting Informational Proceeding on a
Greenhouse Gas Emissions Cap

DOCKET

07-OIIP-1

DATE OCT 02 2008

RECD. OCT 02 2008

Docket 07-OIIP-01

**COMMENTS OF THE SACRAMENTO MUNICIPAL UTILITY DISTRICT ON
THE JOINT COMMISSION PROPOSED DECISION ON ALLOWANCE
ALLOCATION**

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COMMENTS OF THE SACRAMENTO MUNICIPAL UTILITY DISTRICT ON THE JOINT COMMISSION PROPOSED DECISION ON ALLOWANCE ALLOCATION

In accordance with the Rules of Practice and Procedure of the Public Utilities Commission (“CPUC”) of the State of California, the Sacramento Municipal Utilities District (“SMUD”) hereby files these Opening Comments to the *Final Opinion on Greenhouse Gas Regulatory Strategies* (“Proposed Decision” or “PD”) issued on September 12, 2008, in R.06-04-009. SMUD also files these Opening Comments with the California Energy Commission (“CEC”) in Docket 07-OIIP-01. In these Comments, the CPUC and CEC will collectively be called the “Joint Commissions” or “JCs” and the California Air Resources Board will be called “ARB.”

I. INTRODUCTION AND EXECUTIVE SUMMARY

SMUD appreciates the very open and public process that the Joint Commissions embarked on nearly a year ago to provide recommendations to the ARB regarding treatment of the electricity sector in the ARB’s implementation of AB 32. As the state energy agencies most versed in electric sector issues such as renewable energy siting, energy efficiency, reliability, and rates, the recommendations appropriately carry great weight. Further, the E3 modeling effort that was completed in June provided a number of useful scenarios allowing the Joint Commissions to attempt a fair allocation of allowances among sector participants. However, caution should be used when translating the results of a California electric-sector-only model to a multi-sector, multi-jurisdictional cap and trade program. SMUD’s principal concern with this decision is the lack of discussion of the impacts of state apportionment of allowances within the multi-state cap

and trade system proposed by the Western Climate Initiative (“WCI”). The importance of the assumptions regarding imports of electricity drove many of the earlier decisions in this proceeding. However the final Proposed Decision lacks any analytical foundation for the very real possibility that California and the electric sector may not receive sufficient allowance value to meet the increased cost of imported electricity resulting from GhG compliance costs. If California does not secure the right to allowance allocations for electricity consumed in California, but generated in other jurisdictions, California consumer’s equity will be way out of balance intra-state, and overall California’s electricity consumers will unfairly subsidize high carbon generators in other states.

In summary, SMUD’s comments are briefly highlighted as follows:

- It is premature to recommend large auctions without having resolution on apportionment of allowances within the Western Climate Initiative;
- Electricity reliability must be evaluated in the context of the WCI multi-sector cap and trade proposal before recommendations for a full auction can be made;
- Modeling multi-sector impacts on carbon market prices should be undertaken prior to making recommendations for a 100% auction in a multi-sector market;
- SMUD strongly supports direct allocation of allowances to retail providers for those allowances to be auctioned;

- The Joint Commissions should use their experience with progress on the state RPS when setting a cap trajectory, and recommend a more gradual transition;
- High quality voluntary REC markets should be acknowledged and supported through off-the-top allowance allocations or other comparable approaches; and
- Early actions, including early investment in high quality offset development, should be recognized with eligibility in the compliance markets.

In the context of a California Electric Sector only analysis, the Joint Commissions have done a good job of attempting to craft a compromise solution for the parties involved. However, it is important that the Joint Commissions not overstate their conclusions when applying them more broadly to a multi-sector and multi-state emissions trading market. Clearly more analysis is needed before a definitive solution on allowance allocation can be recommended. It is in this context that we offer our comments.

II. THE JOINT COMMISSIONS DID NOT ADEQUATELY CONSIDER WCI APPORTIONMENT IN RECOMMENDING A SWIFT TRANSITION TO 100% AUCTION

The Joint Commissions recommend California participation in a multi-sector, multi-state WCI cap and trade system. In doing so, they promote the benefit of a broad market in finding real, cost-effective GHG emissions reductions, a goal that SMUD agrees with. However, the Joint Commissions fail to adequately analyze a number of very real risks in their Proposed Decision to transition to 100% auction over the first 5 years of the program. These issues are outlined in the section below.

**A. ALLOWANCE APPORTIONMENT AGREEMENTS RISK
SIGNIFICANT ECONOMIC HARM TO CALIFORNIA'S ELECTRIC
RATEPAYERS UNDER A LARGE AUCTION**

The September 23rd Final WCI Recommendations alluded to the fact that the WCI Partners have failed to agree on apportionment of allowances among states that generate and consume electricity. The absence of an agreement creates significant uncertainty regarding the ultimate costs to California customers of the possible allocation options. In particular, the recommendation for distributing allowances at auction, which would in turn embed the price of carbon in the price of power,¹ will result in significant economic harm to California's electricity customers if emissions allowances associated with electricity imports are apportioned to the states in which that generation occurs. To the extent exporting generators can pass through the value of those allowances in their energy prices, California's retail customers will pay for the compliance costs of those generators. However, unlike an auction for allowances apportioned to California, California's retail customers would receive no revenue return from the distribution of allowances in another state. Impacts to California's consumers might vary considerably depending upon California LSE ownership of out-of-state generation, but that's clearly unexplored territory, and in any case the allocation methodologies in the PD would no longer provide the same outcomes for California consumers as intended.

While the PD recommends in several places that emissions from electric sector imports should be included in electric sector allocations, that decision ultimately rests with successful bilateral negotiations, and eventually, with successful lobbying in a future

¹ As stated in the PD, pg. 163: "We expect that, with auctioning, wholesale electricity prices would increase to reflect allowance costs of marginal generation that sets the market clearing price. This would generally flow through to retail rates."

federal program. The outcome of such negotiations, as witnessed by the recent failure to reach agreement within WCI, is most certainly in question. Therefore, the PD should be modified to acknowledge this risk, and propose an alternate allowance allocation approach should California fail to secure allowances to cover the increased costs for emissions compliance associated with imported electricity under either a WCI or federal cap and trade regime.

B. SUBJECTING ALL OF CALIFORNIA’S ALLOWANCES TO A REGIONAL AUCTION CREATES ELECTRICITY RELIABILITY RISKS

While the PD acknowledges that reliability is paramount in the electric sector,² it finds that general availability of allowances in an auction will self correct any shortage due to allocation methodology. Unfortunately, and to the great detriment of grid reliability, in viewing this as an *allocation problem* it misses the underlying issue. As SMUD has pointed out previously, the potential for adversely impacting grid reliability stems from placing the compliance obligation on the generator (deliverer) while placing the reliability obligation on Service Providers and Balancing Authorities. SMUD has specifically commented that a properly designed output-based, fuel-differentiated allowance allocation may actually *present a solution* to the more basic problem of the generators’ need for owning allowances and an LSE’s need to assure grid reliability.³

² As stated in the PD, pg. 144: “While grid reliability is of paramount importance...”

³ *SMUD Reply Comments to Other Party Comments on ALJ’s Ruling Requesting Comments on Emission Allowance Allocation, CHP, and Flexible Compliance Policies*, p.4, filed June 16, 2008 (“SMUD also asserts that it is vitally important to any GhG cap and trade program that includes the electricity sector that the issue of coal versus natural gas fueled generation be examined to avoid unintended consequences. Operating costs for the current fleet of carbon-laden coal-fired generation are far lower than cleaner, newer fossil-fired resources. The Plexos modeled resource mix for 2020 and the E3 model upon which it is based, paint a plausible, economically viable scenario, but one which presumes intelligent master control of GhG emitting resources; a reasoned possibility under LSE-controlled purchasing and dispatch decisions. However, left to survival mode instincts of individual generators, the low-cost, high-carbon plants can

Fuel-differentiated allocation offers a way to not only balance consumer equity issues across California, it also offers a means to assure that cheap but dirty coal cannot use more allowances than the limited allowance supply can provide and still allow needed generation capacity, particularly at the end of a compliance period.

A real world example of grid reliability perils occurred during the California electricity crisis in 2001, when the SCAQMD RECLAIM program precluded needed generation capacity from entering the market. Of course the electricity crisis was more complex than just the RECLAIM issue, but the importance of that market-based compliance “blip” and the real potential to negatively affect grid reliability needs to be taken seriously in designing the CO₂ market.

Failing to ensure electricity grid reliability as a market design criteria is an error, and could lead to an unenforceable GHG emissions cap, large unproductive penalty charges, and a front page black-eye for GHG control. Fuel-differentiated allowance allocation could offer some relief, but only if the grid reliability issue is a criteria when designing the system.

C. THE TRANSITION TO 100% AUCTION PRIOR TO INCLUSION OF THE NATURAL GAS AND TRANSPORTATION SECTORS RISKS MAJOR MARKET DISRUPTIONS

The WCI now proposes to include the transportation and natural gas sectors in its regional cap and trade system beginning in 2015. Similarly, the PD recommends that by 2015, 80% of the allowances under the cap and trade would be auctioned and sold to the highest bidder. As witnessed by this year’s run up in gasoline prices, the transportation

consistently underbid cleaner generators and use more of the limited pool of allowances than is compatible with the Plexos’ optimistic outcome.”)

sector has an extremely high tolerance for large price increases. Said another way, it has an extremely low price elasticity of demand. In fact, the more than \$1 per gallon rise in gasoline prices driven by international oil markets led to little curtailment in overall consumption of the commodity. Based on data from the Federal Highway Administration⁴ and the EIA,⁵ the price elasticity of demand for vehicle travel between July 2007 and June 2008 indicated a value of approximately 20%, suggesting that even at very high price increases, demand for travel, and thereby gasoline, is very inelastic. Price increases for gasoline over the same period would be the equivalent of a \$100 per tonne price for CO₂.⁶ Inclusion of such a large market, with such an inelastic demand, into the cap and trade program would risk substantial price spikes in allowance prices. Such price spikes could ripple through the electric sector, particularly if the vast majority of allowances are auctioned, thereby embedding this price directly into the wholesale electricity market. While it is important to provide a price signal for carbon, an auction should be approached cautiously so as not to cause price shocks.

D. THE JOINT COMMISSIONS SHOULD RECOMMEND A SLOW AUCTION TRANSITION THROUGH 2016, WITH A RE-EVALUATION ONCE ALL SECTORS ARE INCLUDED

For the reasons stated above, the Joint Commissions should recommend a slower, more prudent transition from free allocation to auction, such as the 10% to 25% auction transition found in the WCI Final Recommendations. Such a transition should recognize the risks to California's electricity customers that a full auction presents. These risks are

⁴ US Department of Transportation Federal Highway Administration Traffic Volume Trends <http://www.fhwa.dot.gov/ohim/tvtw/tvtpage.cfm>, accessed September 26, 2008

⁵ US Energy Information Administration Weekly U.S. Regular All Formulations Retail Gasoline Prices http://tonto.eia.doe.gov/dnav/pet/hist/mg_rt_usw.htm accessed September 26, 2008

⁶ This is based on a calculation using the C-CAR emissions factor for gasoline of approximately 10 kgCO₂/gallon of gasoline, and therefore 100 gallons of gasoline emitting 1,000 kg or 1 tonne of CO₂. At a price of \$100 per tonne of CO₂, that would increase the price of an average gallon of gasoline by \$1.

brought on by uncertainties both within the electric sector regarding grid reliability, and outside the sector regarding regional and multi-sector markets. The Joint Commissions should explicitly recognize these risks and address them in the Final Decision, rather than leaving the issues to the ARB to figure out.

III. SMUD SUPPORTS THE DIRECT ALLOCATION OF ALLOWANCES TO LSE'S FOR ANY ALLOWANCES SUBJECT TO AUCTION

In the Proposed Decision's Orders 10, 12, 13, and 14, which allocates to retail providers the allowances to be auctioned, the Joint Commissions have found a reliable and robust method of preserving allowance value for consumers of electricity; the population that will ultimately provide the revenue for transitioning to a low-carbon economy. As discussed in the Market Advisory Committee Report in June of last year, returning value to the electricity consumer in this way avoids windfall profits by generators and others.⁷ SMUD and other stakeholders have commented at lengths that monetization of allowance value in an auction will produce large and visible revenue streams that could too easily be diverted on their return trip to the electricity consumer. This becomes even more likely in the case of a regional WCI auction, where money is disbursed first back to each state, and then appropriated by the state to specific programs. In conveying allowances to the retail providers and requiring the auction proceeds to be used for AB32 purposes, the Joint Commissions have found a good solution. These decisions also embed oversight of distribution of auction revenues with experienced authorities for disbursement in a responsible manner.

⁷ MAC Report, p.54

IV. SMUD SUPPORTS THE PROPORTIONAL ALLOCATION OF ALLOWANCES TO THE ELECTRICITY SECTOR

The Ordering paragraphs of the PD describe the Joint Commissions’ recommendations for allocation of emissions allowances to the electric sector. The recommendations are based on the acknowledgement that the electric sector is contributing more than its fair share of statewide emissions reductions through direct measures. Based on the ARB’s Draft Scoping Plan, the electric sector is contributing roughly 32% of the statewide reductions accomplished through direct regulation, and 40% of the reductions through direct regulation from the capped sectors. This compares to its contributions of 23% of statewide emissions, and 26% of the emissions in the capped sectors.⁸ Our sector is being asked to contribute more than its fair share of reductions. A fairer allocation would provide the electric sector with *at least* a proportional allocation of allowances based on the sector’s historic emissions.

V. SMUD SUPPORTS THE USE OF AN OUTPUT-BASED, FUEL-DIFFERENTIATED ALLOWANCE ALLOCATION TO ENCOURAGE EFFICIENT GENERATION AND MINIMIZE DISPROPORTIONATE ECONOMIC IMPACTS

The Joint Commissions note that one of the reasons that they chose an output-based, fuel-differentiated allowance allocation was that it would reduce the potential for excess profits due to excess free allowances (“allowance rent”), compared to other free allocation approaches. (PD at pp. 207 – 208) At the same time, such an approach encourages efficient generation and minimizes disproportionate economic impacts. Given these positive characteristics, SMUD recommends that the Commissions consider a longer transition period to auctioning which relies more heavily on this approach,

⁸ These numbers are based on Tables 1, 2, and 4 out of the ARB Draft Scoping Plan as well as Table 12 in Appendix C of the Draft Scoping Plan Appendices.

should WCI negotiations fail to produce an apportionment of allowances for California that includes emissions from electricity imports. SMUD also supports the idea of phasing out the coal-adder over time to encourage reduction of reliance on coal as an electricity source for California.

VI. SMUD SUPPORTS THE USE OF THREE YEAR COMPLIANCE PERIODS TO ADDRESS HYDROELECTRIC VARIABILITY

As noted in SMUD's earlier comments, hydro variability in California and in the West is significant, and compliance periods that ignore this fact risk compounding the problems associated with dry years in the electric sector. SMUD appreciates that the Commission recognizes this, and cautions against any recommendation to consider moving to shorter compliance periods as the program matures. (PD at p. 265) The variability in hydro production is projected to worsen due to Climate Change, and if anything, the ARB should be considering additional measures to further accommodate this possibility, rather than planning to further constrict the electric sector's ability to reduce emissions while maintaining electric grid reliability and reasonable electricity rates.

VII. THE CAP REDUCTIONS SHOULD BEGIN GRADUALLY, TO ALLOW INFRASTRUCTURE TO BE PUT IN PLACE IN TIME TO REDUCE EMISSIONS

One of the PD's principal recommendations is a straight-line, annual reduction in the multi-sector emissions cap between 2012 and 2020. (Ordering Paragraph 5) However, the PD does little to justify why a straight-line reduction is preferable to any other trajectory, other than for administrative simplicity. A substantial number of commenters (including PG&E, PacifiCorp, Dynergy, IEP and SCE) recommend a

gradual reduction of the emissions cap, in step with the lead times necessary for renewable and other abatement technologies to ramp up. (PD at p. 114) PG&E adds that the time needed to bring on long-term, capital intensive investments is aggravated by the reluctance of energy consumption to change much in the short term. (PD at p. 115) Thus, PG&E suggests that ARB should conduct a rigorous and transparent economic modeling of the impacts of a linear trajectory (straight or curved) on all sectors of the economy, not just on the electricity sector.

Though the PD recognizes that reducing GHG emissions consistent with AB 32 goals will require long-term investments in low-emitting technologies (PD at p. 141), the Joint Commissions do not respond directly to these serious concerns. Instead, the Joint Commissions justify an annual, straight-line cap out of a desire for “steady progress”. There is also no discussion of the experience the JCs have had with similar straight-line trajectories, in the RPS program for example, that could inform the commissions of how prepared the electric and other sectors of the California economy are to achieve these large reductions in year one of the program or on an annual basis thereafter. There is too much at stake and too many uncertainties to assume that a straight line is the only tact to take.

SMUD agrees with PG&E that an assessment of abatement costs and availability of abatement measures *in all sectors* is needed before an informed decision can be made on the best cap reduction trajectory to facilitate successful, and cost effective, achievement of 1990 levels by 2020. As the Joint Commissions point out, much has been done by E3 to assess costs and opportunities for GHG mitigation in the electric sector but equivalent information has not been developed for other sectors. (PD at p. 116) But

more to the point, modeling still has not been done to validate the pace of change, either in the electric sectors or the other sectors proposed for inclusion in the cap and trade. While it can be implied that steady progress means equal reductions, it cannot be assumed that equal reductions are the most effective or efficient way to achieve the 2020 goal.

A reference to the recent history of the California RPS program is illustrative. The Legislature in SB 1078 mandated that electrical corporations meet annual procurement targets by growing renewable energy retail sales by at least one percent per year until 20 percent of retail sales are from renewable resources in 2010. (Pub. Util. Code § 399.15(b)(1)) SB 1078 was passed in 2002, and the CPUC made 2004 the first compliance year. However, simply mandating a straight-line increase in procurement of renewable energy has not been successful. RPS progress as measured by installed capacity has been slow (only about 400 MWs), despite approval for construction of 5,900 MWs of RPS-eligible capacity.⁹ Indeed, of the three major California IOUs, only one (SDG&E) has actually *increased* renewable procurement since 2003, whereas both SCE and PG&E are actually delivering *less* renewable energy than before SB 1078 was implemented. SMUD does not cite these statistics to disparage the substantial efforts that have been made by California's electrical corporations to meet the RPS goals but rather to illustrate that substantial lead time is an undeniable fact to achieve transformative change in the economy. To meet the 2010 goals, the CPUC estimates that California's electrical corporations would need an additional 3,000 MWs of renewable capacity over the next two years. This means that while it has taken six years to install 400 MWs of capacity (which has not even kept up with load growth), California's electrical

⁹ CPUC, Renewables Portfolio Quarterly Report of the Legislature, p. 4 (July 2008)

corporations will have to add more than 20 times that amount in one third of the time if they are to meet the RPS goals. In other words, in the first six years of an eight year program we achieved only *four percent* of the job, while in the remaining two years we must achieve the remaining 96 percent! This is definitely not a straight-line increase or steady growth in renewable procurement, despite the threat of penalties and other sanctions by the CPUC. While the Legislature had the best of intentions it was naïve to assume that it could simply legislate a steady increase in procurement of renewable energy. Massive new infrastructure takes time, particularly if government wants it done in a cost effective manner.

SMUD urges the Joint Commissions to draw on the hard lessons of the California RPS Program and not adopt a straight-line, multi-sector cap reduction, no matter how much they desire steady progress, unless and until a thorough economic analysis can be performed to assess the capability of the public and private sectors to respond in a cost effective way. We urge the Joint Commissions to also keep in mind that setting the trajectory for a multi-sector cap involves more than the electric sector, but also the transportation and other sectors. While it may be tempting to conclude that the electric sector is already “geared up” and ready for an explosion of new construction of low-emitting electric power (which is what will be needed not only to bring on 8,500 MWs of new renewables in two years but an *additional* 12,500 MWs prior to 2020),¹⁰ the other sectors in the economy are clearly not so well prepared. If the lessons of history are to be heeded then the Joint Commissions should at least take seriously the comments of PG&E and others that California cannot assume that the transportation sector, industrial and

¹⁰ E3 Presentation at CPUC Workshop on Electricity and Natural Gas Sector Modeling Results, April 21, 2009 p. 41

electric sectors can meet straight-line cap reductions beginning in 2012 and in every year through 2020. There is simply insufficient evidence in the record of this proceeding, and before the ARB, to conclude that a straight-line trajectory is technologically achievable and is the most cost-effective method for achieving 1990 emissions levels during the next eight-year program.

VIII. VOLUNTARY REC MARKETS SHOULD BE SUPPORTED, AND THE USE OF A SET-ASIDE OR COMPARABLE EXPLICIT RECOGNITION SHOULD BE ADOPTED AS A MECHANISM TO ACCOMPLISH THIS

The support for renewable energy as a direct contribution to reducing greenhouse gases has been acknowledged for many years in California, the U.S., and around the world. It is recognized as a core strategy, accounting for 19% of the direct emissions reductions in the ARB's Draft Scoping Plan. In the same plan, the ARB acknowledges the critically important role that consumer behavior plays in accomplishing California's goals. Just as California chooses to make renewable energy investment a core strategy in reducing its emissions, it should allow the same opportunity for its residents and businesses, on whom it will ultimately rely to meet its emissions targets.

For California, a state that so strongly supports renewable energy development, to have to tell its residents and businesses that their choice to purchase renewable energy does not count in California's efforts to fight climate change, would represent a very mixed message and would be a potentially embarrassing decision for the state. Further, it weakens California's efforts to accomplish emissions reductions through increased use of renewable energy in the eventual federal cap and trade program. Renewable energy should have a place in reducing carbon emissions, and whether the entity deciding that is a person, a business, a regulatory body, or otherwise, that decision should be

acknowledged and accommodated. The Joint Commissions recommend a strategy or strategies for counting greenhouse gas reductions associated with voluntary purchases of renewable energy. The proposal laid out by the Solar Alliance, which has been adopted by several states in the Regional Greenhouse Gas Initiative, represents a reasonable strategy to start with.

IX. THE JOINT COMMISSIONS SHOULD RECOMMEND THAT SOURCES BE ALLOWED EARLY ACTION CREDIT FOR OFFSETS ACQUIRED AFTER PASSAGE OF AB 32 BUT PRIOR TO 2012

AB 32 requires the ARB, in adopting regulations, to “[e]nsure that entities that have voluntarily reduced their greenhouse gas emissions prior to the implementation of this section receive appropriate credit for early voluntary reductions.” (H&S Code § 38562(b)(3)) Though the PD recognizes the importance of providing appropriate recognition of early actions to reduce GHG emissions (PD at p. 141), the Joint Commissions’ only recommendation related to ensuring credit for early action is to recommend that allowances to retail providers be distributed based on actual historical emissions. (Ordering Paragraph No. 4) SMUD urges that the PD be amended to include the following additional measure: *High quality carbon offsets acquired after enactment of AB 32 can be banked and used for compliance beginning in 2012.*

The JCs have concluded that AB 32 permits the use of offsets for AB 32 compliance but do not address the use of offsets acquired *before* regulations are promulgated in 2012. As the PD explains, “We are convinced that sources within the electricity sector may have limited opportunities to make short-term GHG reductions at levels significantly larger than those associated with the programmatic energy efficiency and renewable energy measures recommended elsewhere in this decision.” (PD at p.

269) However, allowing sources to bank early action credit before 2012 could achieve immediate and potentially substantial GHG reductions. Nothing would stimulate development of GHG reductions sooner than allowing entities to begin banking offsets now. As the PD also states, “offsets may be one of the few compliance options available to covered entities, especially in the short run.” (PD at p. 269)

Early action credit for offsets is particularly important because ARB’s Draft Scoping Plan recommends that most of the electricity sector reductions will be from programmatic energy efficiency and RPS programs. Those programs require massive capital investment and big lead times to bring on line. By contrast, smaller offset projects, such as dairy digesters, can bring reductions right away.¹¹ Though generally small in size, a policy that encourages development of numerous projects with short lead times can add up to substantial reductions over time. The JCs should not overlook these ripe opportunities.

Moreover, SMUD supports the JC’s view that narrow limits on the geographic sources of offsets should be avoided. (PD at p. 270) Thanks to the Kyoto Protocol, the rest of the world has pioneered protocols that can ensure the availability of “high quality” offset projects to California sources. While SMUD agrees with the JCs that the Clean Development Mechanism (“CDM”) has had its problems, we believe that such problems have been recognized by the CDM and other offset systems and are now being addressed through tighter protocols. For example, the Gold Standard is now endorsed by leading

¹¹ SMUD is currently working with a number local biomass problem waste sources which are currently producing methane emissions. For example, SMUD recently helped fund the installation of two dairy digesters to capture and convert dairy methane to CO₂. Clarity as to whether reductions today from these types of projects would count could significantly accelerate their development, thereby resulting in more emissions reductions today.

NGOs, and has clearly defined additionality rules, requires third party auditing, and an approval body similar to the CDM Executive Board.¹²

The point is that there are currently high quality offsets projects ready for development in California and elsewhere, and internationally recognized carbon offset standards currently available to verify the integrity of carbon offsets. California Deliverers can provide important support to this market if the regulatory agencies signal that they will allow them to bank high quality offsets to use for compliance obligations beginning in 2012. Not only will this accelerate reductions of GHG emissions in California, but it can lead to a better and broader market for high quality GHG offsets beyond our borders.

Dated: October 2, 2008

Respectfully submitted,

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¹² Anja Kollmuss (SEI-US), Helge Zink (Tricorona), Clifford Polycarp (SEI-US), "Making Sense of the Voluntary Carbon Market: A Comparison of Carbon Offset Standards", WWF Germany (March 2008)

CERTIFICATE OF SERVICE

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

COMMENTS OF THE SACRAMENTO MUNICIPAL UTILITY DISTRICT ON THE JOINT COMMISSION PROPOSED DECISION ON ALLOWANCE ALLOCATOIN

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 2nd day of October, 2008, at Sacramento, California.

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