

March 30, 2009

Via Email

Sam Wade
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California Air Resources Board
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Sacramento, CA 95814

Re: SMUD Comments on Voluntary Early Reductions

Dear Mr. Wade,

SMUD appreciates the opportunity to offer the following comments on ARB's questions regarding treatment of Voluntary Early Reductions in the context of a Cap and Trade Program. Early reductions of carbon emissions is an important component of AB 32, as the Legislature recognized that early actors should be rewarded for reducing emissions voluntarily before the State tells them to do so.

In considering which types of actions the ARB decides to credit, it is important to recognize that the AB 32 statutory language states only that the ARB shall, "ensure that entities that have voluntarily reduced their GhG emissions prior to the implementation of this section receive appropriate credit for early actions". This language is very broad as to what types of actions should qualify and the amount of credit that should be awarded. However, the language is clear that sufficient credit must be granted to, "encourage early action to reduce greenhouse gas emissions."

SMUD suggests that for capped sources, any action that reduces emissions prior to full implementation of AB 32, and which is truly voluntary, may be considered creditable. These actions should be subject to the following criteria:

- **Creditable, voluntary reductions should not have occurred as a result of funding or incentives from State or utility sources.** Such actions that have already been provided with financial incentives from the State need not be recognized and incented again. This includes investments made as a result of utility efficiency programs and the Million Solar

Roofs Initiative, for example. By contrast, programs that are unmandated, funded by the firms themselves, and done with the explicit goal of reducing emissions that contribute to Global Warming should be rewarded.

- **Voluntary Early Action credits should encourage utilities to go beyond mandated energy efficiency targets or renewables portfolio standards.** To the extent that utilities go beyond State mandates for energy efficiency or renewables portfolio standards, the ARB should allow these types of actions to be credited through the voluntary early action crediting. Exceeding mandates is a voluntary action, and providing credits would continue to encourage utilities in this behavior. Mechanisms for tracking renewable energy procurement (such as WREGIS) and energy efficiency savings (such as utility reports resulting from AB 2021) provide a basis for measurement and verification of these activities. Further, achieving carbon reductions ahead of schedule should also be recognized provided the entity can present credible evidence that it is accelerating such reductions before it might otherwise have done. Comparisons to pre-existing procurement plans is one verification method that merits study.
- **Voluntary Early Actions should be limited to those that occurred after June 1, 2005.** It was on this date that Governor Schwarzenegger announced to the world that it was California's intent to reduce its statewide greenhouse gas emissions in response to the climate crisis. While actions taken before this date were certainly no less important than those taken after it, the date marks the beginning of the State's efforts to control greenhouse gas emissions, and sent a clear signal to sources of emissions in California as to what the future would hold.
- **Creditable reductions must be measurable and verifiable.** In order for the ARB to be able to credit any early reduction, the reduction must be able to be measured and verified by a third party. Sufficient data regarding changes in emissions and/or activity level, as well as records of specific changes that were made to create the reduction, if appropriate, should be able to be provided to a third party or to the ARB to verify the reduction.
- **Reductions made in uncapped sectors should be creditable as offsets.** Provided these reductions meet ARB approved offset protocols, reductions in emissions in uncapped sectors should qualify as emissions offsets, usable in both regulatory or voluntary markets. These offsets can be retired only once, so to the extent that they have been retired in a registry prior to 2012, they cannot again count as an *offset* for compliance purposes after 2012. However, it is possible that the ARB may want to grant *early action credits* to those who have purchased and retired valid offsets prior to 2012, as these actions were clearly undertaken on a voluntary basis and resulted in real emissions reductions.

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Related to these criteria is the question of financial additionality. While perhaps applicable to determining additionality of offset credits, whether or not a firm gains financially from early action is not appropriate in the context of Voluntary Early Reductions from sources within capped sectors. Once a cap is in place, reductions from these sources will automatically result in reduced compliance costs, whether or not these reductions meet a financial additionality threshold. The purpose of rewarding early reductions for these sources is to recognize that they could have waited until after 2012 to make the reduction, and thus benefited financially. However, since the regulated entity went ahead and made the reduction anyway, it should not pay the price for having done so. The prospect of firms waiting to implement reduction programs will grow between now and when AB 32 is fully implemented if ARB does not quickly clarify that such reductions will receive credit.

In addition, the total amount of credits that should be made available out of the 2012 pool should be limited to no more than 10% of the total allowances under the cap. Once all claimed and verified early actions have been accounted for, if the amount exceeds 10% of the 2012 allowance pool, the ARB should divide up the 10% of the allowances among all of the early action projects proportionally to each project's reduction amount.

To summarize, we feel it is important that the ARB put in place a mechanism that truly rewards those who have taken voluntary early action to reduce emissions, in the spirit of AB 32 and the Governor's Executive Order. This should apply to measurable and verifiable emissions reductions projects that have happened since 2005, and need not be subject to a financial additionality test unless those projects were done outside of a capped sector. Reductions must have been made on a voluntary basis without incentives through State or utility programs. The level of crediting should be held at a maximum of 10% of the 2012 allowances. Thank you for the opportunity to comment on this important element of AB 32.

Respectfully submitted

/s/

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cc: Kevin Kennedy
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