

# Summary of Public Utilities Commission and Energy Commission Interim Greenhouse Gas Policy Decision of February 8, 2008<sup>1</sup>

## General Principles

- CEC and CPUC recommend to Air Resources Board (ARB) a combination of regulatory approaches that include programmatic requirements and market-based mechanisms
- All California retail electricity providers should be subject to the same minimum requirements for renewable energy, and all California retail providers of electricity and natural gas should be subject to the same minimum requirements for energy efficiency
- California is pursuing a multi-sector cap-and-trade program for California in collaboration with the Western Climate Initiative (WCI). We expect to develop the regional program within the timeframe required by AB32
- The electricity sector should participate in a multi-sector cap and trade program in California, to develop experience, find the least cost emissions reductions, and demonstrate successful emissions reductions beyond mandatory programs
- The natural gas sector should not be in the cap and trade program at this time: There are fewer options to reduce natural gas GHG emissions, some reporting protocols are still under development, and a cap could expose end users to greater price risk
- All electricity and natural gas sector policies should be regularly monitored and enforced, with mechanisms built in for monitoring, rapid identification of problems, and tools to react, correct or penalize non-compliance

## Regulatory Measures

- ARB should require minimum levels of energy efficiency savings from all retail electricity and natural gas providers; CPUC currently sets requirements for investor-owned utilities (IOUs) and CEC sets goals for publicly-owned utilities (POUs). All of the requirements for IOUs and POUs should be mandatory and enforceable
  - may require statutory augmentation for POUs
- Similarly, ARB should require minimum levels of renewable energy from all retail electricity providers
  - CPUC statutory authority currently limited to no more than 20% for IOUs

---

<sup>1</sup> Full text of decision is available at: <http://docs.cpuc.ca.gov/EFILE/PD/78643.htm>

- No current statutory minimum mandate for POUs; some have set goals
- Agencies should jointly seek legislative authority for a minimum level with agency flexibility for greater requirements from retail providers, if it is determined that ARB does not already possess such authority:
  - continue CPUC authority for IOUs and competitive retail providers
  - seek legislation establishing oversight authority for POUs

## **Cap and Trade**

- Electricity sector should participate in multi-sector cap and trade program
- Point of regulation should be the deliverer (a variation of first seller) of electricity onto the California grid (the entity that delivers electricity to the state transmission grid)
- Deliverer approach recommended because it:
  - Helps minimize potential for leakage by addressing imports, leading to real emissions reductions from the sector
  - Is fundamentally a source-based approach for in-state resources, consistent with past cap and trade programs and potential federal programs
  - Incorporates price of carbon into energy market prices, thus providing better price signals and incenting investments in low carbon infrastructure
  - Minimizes distortions in the CAISO's new market design
- At least some portion of the allowances should be auctioned
- At least some of the revenue generated through auctioning of allowances should be recycled for the benefit of electricity consumers in California, such as to augment investments in efficiency and renewables, low-income bill relief, etc.
- Taking a programmatic approach to the natural gas sector now does not preclude future inclusion in a multi-sector cap and trade program

## **Next Steps**

- Parties' comments are due February 28, with reply comments on March 4
- Decision is on CEC agenda of March 12, 2008 and CPUC agenda of March 13, 2008
- Staff work in joint proceeding is continuing on options for:
  - Overall electricity and natural gas sector contributions to the AB 32 2020 goal, based on how much can be achieved with programmatic requirements and market-based mechanisms
  - Allowance distribution for the electricity sector, utilizing general principles of partial auctioning and distribution of at least some auction revenues to consumers for GHG reductions
  - Flexible compliance mechanisms for the electricity sector, including offsets, trading, multi-year compliance methods, banking, and borrowing
- Final recommendation from CEC and CPUC to be forwarded to ARB in August 2008