

Summary of Public Utilities Commission and Energy Commission Interim Greenhouse Gas Policy Decision of March 13, 2008¹

Context

- CEC and CPUC developing recommendations to Air Resources Board (ARB) on approach to implementing AB32 for the electric and natural gas sectors.
- Joint proceeding, with support from staff of both agencies.
- Ongoing consultation with ARB.
- ARB is the final decision-maker and is responsible for compliance with AB32.

General Principles

- CEC and CPUC recommend to Air Resources Board (ARB) a combination of regulatory approaches that include programmatic requirements and market-based mechanisms (subject to ARB determination that any market-based mechanism meets the tests outlined in Parts 4 and 5 of AB 32).
- 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 understand that the regional program will be developed within the timeframe required by AB32.
- The electricity sector should participate in a multi-sector cap and trade program in California, to develop experience, demonstrate successful emissions reductions beyond mandatory programs and find those additional emissions reductions at the lowest possible cost.
- The natural gas sector should not be in the cap and trade program at this time, but it will be reasonable to include it at a later date: 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. For now reductions should come exclusively from mandatory measures (primarily energy efficiency programs).
- 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.

¹ Full text of decision is available at: http://docs.cpuc.ca.gov/PUBLISHED/FINAL_DECISION/80150.htm

Regulatory Measures

- ARB should require all cost-effective 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. This 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
 - 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 of electricity onto the California grid (the entity that delivers electricity to the state transmission grid). This is a variation of the “first seller approach” recommended by the Market Advisory Committee.
- 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 wholesale electricity markets
- At least some 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

- Staff work in joint proceeding is continuing on options for:
 - Overall electricity and natural gas sector contributions to the AB 32 2020 goal, based upon 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
 - all parties' proposals and comments will be considered carefully
 - no entity will be treated unfairly based on their historical choices regarding generation
 - Flexible compliance mechanisms for the electricity sector, including offsets, trading, multi-year compliance methods, banking, and borrowing.
- Ongoing consultation with ARB staff. ARB is responsible for determining that tests required by AB32 are satisfied. CPUC/CEC will support this effort as needed.
- Final recommendation from CEC and CPUC to be forwarded to ARB in August 2008.