

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

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

R.06-04-009

AB 32 Implementation

07-OIIP-01

**PREHEARING CONFERENCE STATEMENT OF THE INDICATED
PRODUCERS**

DOCKET	
07-OIIP-1	
DATE	<u>JUL 26 2007</u>
RECD.	<u>JUL 26 2007</u>

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July 26, 2007

PREHEARING CONFERENCE STATEMENT OF THE INDICATED PRODUCERS

I. INTRODUCTION

The Indicated Producers¹ (IP) submit the following comments pursuant to the administrative law judge's ruling (ALJ Ruling) issued on July 12, 2007. IP is an *ad hoc* coalition representing the interests of in-state and other domestic natural gas producers, natural gas marketers, and large industrial end-users engaged in oil and gas production and refining.

II. SCOPE

The ALJ Ruling indicates that the scope of the natural gas inquiry "*will address greenhouse gas emissions associated with (1) combustion of natural gas by non-electricity generator end-use customers and (2) all transmission, storage and distribution of natural gas within California.*"² The ruling states that the primary objective of the inquiry will be to make recommendations to the California Air Resources Board (CARB) and that it may also consider adopting its own regulations to address greenhouse gas (GHG) emissions of its regulated entities. To the extent this Commission seeks to adopt its own regulations, it should ensure that it avoids the creation of duplicative regulation, consistent with the recommendations of the Market Advisory Committee (MAC) and Commission staff.

¹ Member companies include Aera Energy LLC, BP West Coast Products LLC, ConocoPhillips Company, Chevron U.S.A. Inc., and Occidental Energy Marketing, Inc.
² ALJ Ruling, at 2-3.

III. PROPOSED SCHEDULE

The proposed schedule contemplates making recommendations to CARB on reporting as early as September 2007.³ Establishing reporting requirements in advance of knowing the scope and points of regulation, however, will present a challenge.⁴ Until the scope of regulation is known, the Commission will not know what information must be reported to enforce the regulation. Likewise, until the points of regulation are known, the Commission will not know which entities should bear reporting responsibility. Pending those determinations, the Commission should consider broad interim reporting requirements. Interim requirements could be imposed on CPUC-regulated local distribution companies and require gathering data to inform the market design and future detailed reporting rules for the natural gas sector.

IV. NEED FOR HEARINGS

The ALJ Ruling seeks parties' views on the need for hearings. Initially, parties should use workshops to discuss market design alternatives. Once market design proposals have been framed, the Commission should consider evidentiary hearings to examine any disputed factual issues underlying the proposed design alternatives.

³ ALJ Ruling, at 5.

⁴ ALJ Ruling, at Attachment A, at 12.

V. COMMENTS ON STAFF PRELIMINARY RECOMMENDATIONS

A. Staff's Initial Scope Is Informed and Well-Reasoned

1. Recommended Scope Appropriately Aims to Limit Duplicative Regulation

Staff appropriately recommends that the natural gas sector rulemaking exclude transportation, electricity generation, point sources and enhanced oil recovery emissions given that they are already regulated by CARB.⁵ These recommendations avoid duplicative regulation of entities and also are consistent with the recommendations made by the MAC in its June 1, 2007 Report.⁶

2. Recommended Scope Appropriately Takes Account of Issues That May Require Special Consideration

Staff acknowledges that emissions from combined heat and power (CHP) may require coordination of the policies that will ultimately apply to the electricity and gas sectors. At this time, it appears that the natural gas and emissions savings resulting from large-scale CHP may be addressed through CPUC/CARB electricity sector regulations. If this occurs, particularly if large CHP facilities are point-source regulated by CARB, the Commission should avoid duplicative regulation and limit its review to those CHP facilities not directly regulated by CARB.

B. Staff Recommended Coordination Between Natural Gas and Electricity Sector Inquiries Is Generally Logical and Efficient

Staff recommends that the following issues be examined jointly for the electric and natural gas sectors: reporting and tracking, emissions reduction

⁵ ALJ Ruling, at Attachment A, at 15-16.

⁶ Recommendations for Designing a Greenhouse Gas Cap-and-Trade System for California, 29-30 (noting importance of preventing double-counting of emissions).

measures and annual sector emissions cap, flexible compliance mechanisms, and entity-specific allowance allocation. It is logical to coordinate review of these issues to ensure design consistency between sectors. Most notably, the use of flexible compliance mechanisms (e.g., trading) and general allocation schemes (e.g., free allocation versus auctions) should be similar among sectors. In other areas, differences between the electricity and natural gas industries will drive sector-specific consideration. For example, as noted above, reporting requirements for the natural gas sector could differ from the electricity sector depending upon the point of regulation (LDC, consumer) and target of regulation (methane versus CO₂). Likewise, the entity-specific allowance allocation approach for the natural gas sector may differ from, for example, a point-source allocation approach for electricity. With these qualifications in mind, maximizing the efficient coordination of proceedings across sectors is an important goal.

VI. CONCLUSION

IP applauds the informed recommendations presented by Commission staff and looks forward to discussing these issues as well as those raised in the ALJ ruling at the pre-hearing conference.

July 26, 2007

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Evelyn Kahl". The signature is fluid and cursive, with the first name "Evelyn" and the last name "Kahl" clearly distinguishable.

Evelyn Kahl
Seema Srinivasan
Counsel to the Indicated Producers

CERTIFICATE OF SERVICE

I, Karen Terranova hereby certify that I have on this date caused the attached **Prehearing Conference Statement of the Indicated Producers** in R.06-04-009 to be served to all known parties by either United States mail or electronic mail, to each party named in the official attached service list obtained from the Commission's website, attached hereto, and pursuant to the Commission's Rules of Practice and Procedure.

Dated July 26, 2007 at San Francisco, California.

A handwritten signature in black ink, appearing to read "Karen Terranova", with a long horizontal flourish extending to the right.

Karen Terranova