

BEFORE THE
PUBLIC UTILITIES COMMISSION AND THE
CALIFORNIA ENERGY 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.

CPUC Rulemaking 06-04-009
CEC Docket 07-OIIP-01

DOCKET	
07-011P-01	
DATE	JUL 26 2007
RECD.	JUL 27 2007

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
PREHEARING CONFERENCE STATEMENT

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PUBLIC POWER AUTHORITY

Dated: July 26, 2007

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In accordance with the Administrative Law Judge's Ruling ("Ruling") issued on July 12, 2007, the Southern California Public Power Authority ("SCPPA") respectfully submits this statement for the prehearing conference that is scheduled for August 1, 2007 in this proceeding.

SCPPA generally finds merit in the policies recommended by the staff of the California Public Utilities Commission ("Commission") in the July 12, 2007 Preliminary Staff Recommendations for Treatment of Natural Gas Sector Greenhouse Gas Emissions ("Preliminary Staff Recommendations"). First, the staff recommends that if a cap-and-trade regime is established to meet the greenhouse gas ("GHG") reduction goals of Assembly Bill ("AB") 32, the natural gas sector should be a capped sector. This proposition is certainly true. As pointed out in the Preliminary Staff Recommendations, the natural gas sector (excluding natural gas used for electricity generation) constitutes approximately 14 percent of California's GHG emissions. Clearly, the natural gas sector must be a capped sector in order to achieve Assembly Bill ("AB") 32 goals.

Second, the staff recommends that the scope of emissions that would be attributed to the natural gas sector should include both emissions from end-users and emissions from natural gas infrastructure. However, the end-use emissions that would be attributed to the natural gas sector would *exclude* (1) emissions related to the production of electricity, which would be included within the electricity sector rather than the natural gas sector, (2) emissions by large non-electric generation industrial customers (including enhanced oil recovery) which are treated by the California Air Resources Board (“CARB”) as individually regulated point sources or as parts of other sectors, and (3) emissions from transportation-related usage. Thus, in the staff’s view, all natural gas usage that is not otherwise reached by GHG emission regulation would be included within the natural gas sector. Staff’s recommended approach is consistent with the Legislature’s determination in AB 32 that California’s GHG reduction effort shall reach the entire California economy without the burden of GHG reduction falling on some sectors but not others.

In addition to assuming that CARB will “want to regulate as many sectors as possible,” staff assumes that there will be a need to regulate sectors “in a parallel manner.” Preliminary Staff Recommendations at 13. The Staff says that it “is mindful that differences in treatments of sectors can result in unintended consequences....” *Ibid.* SCPPA agrees. Particularly, it would be inequitable to burden some sectors disproportionately to others. For example, it would be inequitable to insist upon a greater percentage emission reduction from the electric sector than the natural gas sector. Proportional contributions should be expected from the gas and electric sectors.

Further, if a cap-and-trade mechanism were to be adopted and allowances were to be allocated administratively, the basis for the administrative allocation of allowances within the electric and natural gas sectors should be consistent. In its June 30, 2007 recommendations to

CARB, the Market Advisory Committee (“MAC”) recognized that allocating allowances administratively to electric load-serving entities (“LSEs”), including publicly owned utilities, may be appropriate:

If allowances are allocated for free, in some cases the impact on consumer prices could be smaller than in the case of auctioning (regardless of whether the first-seller or load-based approach is adopted). Using an allowance has an opportunity cost regardless whether the allowance was purchased or given away. However, in California utility regulators are likely to prevent LSEs, whose rates they regulate, from passing allowance opportunity costs along to consumers in cases where the LSE receives allowances for free. This is likely to be particularly true of the municipal utilities, which are effectively owned by consumers. Thus, if allowances are freely allocated to LSEs and the LSEs are prevented from passing along the opportunity costs associated with the use of free allowances, the impact on consumer prices will be less than under a system that auctions allowances or one that freely allocates allowances to generators.

Recommendations of the MAC to the CARB, June 30, 2007. In the event of an administrative allocation of allowances to gas utilities as well as electric utilities, the Preliminary Staff Recommendation recognizes that there is an issue about “the basis on which [administratively allocated allowances] would be allocated (i.e., historical emissions, usage, population, etc.).” Preliminary Staff Recommendation at 14. In allocating allowances administratively, the Commission should not use measures for either the gas or electric sectors such as population that are not tied directly to historic emissions levels. If there is an administrative allocation of allowances to gas utilities as well as electric utilities, the administrative allocation of allowances, at least at the outset, should be based predominantly if not entirely on historical emissions in order to mitigate the economic harm that may otherwise occur.

SCPPA appreciates this opportunity to express its preliminary views on some of the important issues that will be considered in this proceeding. SCPPA looks forward to assisting the Commission as it pursues the issues discussed in the Preliminary Staff Recommendation.

Respectfully submitted,

/s/ Norman A. Pedersen

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Dated: July 26, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the **SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY PREHEARING CONFERENCE STATEMENT** on the service list for R.06-04-009 by serving a copy to each party by electronic mail, or by mailing a properly addressed copy by first-class mail with postage prepaid to each party unable to accept service by electronic mail.

Executed on July 26, 2007, at Los Angeles, California.

/s/ Sylvia Cantos

Sylvia Cantos