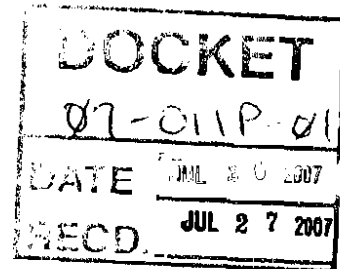


**BEFORE THE
PUBLIC UTILITIES COMMISSION AND THE
CALIFORNIA ENERGY COMMISSION
OF THE STATE OF CALIFORNIA**

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

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



**SOUTHERN CALIFORNIA GENERATION COALITION
PREHEARING CONFERENCE STATEMENT**

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Dated: July 26, 2007

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**SOUTHERN CALIFORNIA GENERATION COALITION
PREHEARING CONFERENCE STATEMENT**

In accordance with the Administrative Law Judges' Ruling ("Ruling") issued on July 12, 2007, the Southern California Generation Coalition ("SCGC") respectfully submits this statement for the prehearing conference that is scheduled for August 1, 2007 in the captioned proceeding.

The Administrative Law Judges attached a document entitled "Preliminary Staff Recommendations for Treatment of Natural Gas Sector Greenhouse Gas Emissions" ("Preliminary Staff Recommendations") to the Ruling to suggest GHG emission policies for the natural gas sector. The Staff recommends that the scope of GHG emissions that are attributed to the natural gas sector should include both emissions from end-users and emissions from natural gas infrastructure. Preliminary Staff Recommendations at 15. Importantly, the Staff would *exclude* from the natural gas sector (1) emissions from electric generation, (2) emissions from industrial customers that are treated by the California Air Resources Board ("CARB") as individually regulated point sources, and (3) emissions from transportation-related uses. SCGC

supports the Staff proposal regarding the scope of emissions that would be reached within the natural gas sector. Particularly, SCGC supports the specified exclusions.

Given the exclusions, natural gas sector GHG emission reduction costs should not be permitted to migrate to the electric generation, industrial, and transportation sectors. The Staff notes: “Achieving meaningful GHG reductions would require lowering consumption through energy efficiency programs such as those administered by the Public Utilities Commission and the Energy Commission.” Preliminary Staff Recommendations at 1. The cost of the energy efficiency programs or any similar programs should be recovered from the natural gas sector.

SCGC is especially concerned that costs associated with natural gas sector energy efficiency programs not be recovered from the electric sector. The electric sector is going to be required to bear enormous costs to meet AB 32 GHG reduction goals. The electric sector should not also be burdened with natural gas sector GHG reduction costs.

Excluding the electric sector from bearing the natural gas sector energy efficiency programs would be consistent with current law and policy. Under existing law, the costs of natural gas utility energy efficiency programs are recovered through a surcharge on consumption of natural gas *excluding* natural gas used to generate electricity. California Public Utilities Code §896. The Legislature is intent on carrying this policy forward, as illustrated in AB 1470, the Solar Water Heating and Efficiency Act of 2007. AB 1470 would specifically exclude natural gas that is used for generating electricity from bearing any portion of the cost of the solar water heating program that is being proposed in AB 1470.

Similarly, the cost associated with reductions of emissions from transportation-related uses of natural gas should not be recovered from electric generators. The Staff recommends that emissions associated with natural gas used in the transportation sector by, for example, LNG and

compressed natural gas vehicles “should be part of ARB’s regulatory approach strategy to address the transportation sector.” Preliminary Staff Recommendations at 16. Accordingly, costs associated with emissions reduction programs for LNG and compressed natural gas vehicles should be allocated for recovery from the transportation sector rather than the natural gas sector or the electric sector. Likewise, the cost of any program aimed at increasing the use of natural gas as a substitute for other fuels in the transportation sector should be contained within the transportation sector and not spread elsewhere. Particularly, the costs should not be spread to the electric sector.

The Staff speculates that a cap-and-trade framework might be adopted to implement GHG reduction efforts in California. Preliminary Staff Recommendations at 13. If there is a cost of emission allowances that would be incurred by the natural gas sector under a cap-and-trade mechanism, the cost of the allowances should be contained within the natural gas sector and not passed through to the electric sector.

SCGC appreciates this opportunity to present some preliminary views regarding GHG emission policies for the natural gas sector. SCGC looks forward to further participation in this important proceeding.

Respectfully submitted,

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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 GENERATION COALITION 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