

**BEFORE THE PUBLIC UTILITIES 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 R.06-04-009

CEC Docket no. D.07-OIIP-01

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**COMMENTS OF THE GREEN POWER INSTITUTE
ON THE PROPOSED DECISION OF COMMISSIONER PEEVEY**

August 24, 2007

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**COMMENTS OF THE GREEN POWER INSTITUTE
ON THE PROPOSED DECISION OF COMMISSIONER PEEVEY**

Introduction

Pursuant to Rules 14.3 and 14.6 of the Commission's Rules of Practice and Procedure, the Green Power Institute (GPI) respectfully submits these *Comments of the Green Power Institute on the Proposed Decision of Commissioner Peevey*, in R.06-04-009, the **Order Instituting Rulemaking to Implement the Commission's Procurement Incentive Framework and to Examine the Integration of Greenhouse Gas Emissions Standards into Procurement Policies**. Our Comments focus on the issues of regional emissions tracking, emissions factors for imported power from unspecified sources, and carbon intensity and procurement decisions.

Regional Emissions Tracking

The GPI is very pleased to see that the *Proposed Decision* (PD) embraces the eventual adoption of a region-wide greenhouse gas reporting and tracking system. The PD states, on pages 4 – 5:

We support the call made by several parties in this proceeding for a multi-state regional GHG reporting and tracking system. A regional solution to reporting and tracking would greatly increase the accuracy of GHG reporting in California. We urge ARB to lead a regional effort to develop and implement such a system.

We request that you strengthen this statement by making the following word addition in the first sentence: "We support the call made by several parties in this proceeding for a multi-state regional electronic GHG reporting and tracking system."

Section D on page 39 of the PD proposes that the interim reporting and tracking system be comprehensively reviewed at an early enough date to allow improvements to be implemented during 2011 at the latest, prior to the commencement in 2012 of mandated

greenhouse gas emissions compliance requirements. Section VII of the PD, pages 40 – 42, discusses the desirability of a regional tracking system and again concludes: “We urge ARB to lead a regional development effort.”

The final paragraph of the section concludes:

While we support parties’ recommendation that a regional solution be in place before January 1, 2012, AB 32 requires that ARB adopt reporting and verification regulations on or before January 1, 2008, and our recommendations support that statutory mandate. The reporting protocol we recommend would aid ARB and the reporting entities during the interim period until a regional reporting and tracking system can be developed and implemented. We recommend that ARB continue to refine our recommendations. Our recommended reporting protocol could be utilized for determining compliance, if a regional solution is not in place by January 1, 2012.

As strong advocates of the “regional solution,” we think that our position is dismissed too lightly. We challenge the joint Commissions to go a step further in this Decision and to recommend that the ARB to set a target date of 2011 to transition to a regional electronic reporting and tracking system. Setting this goal would not interfere with the more limited review of the program that is recommended in the above-quoted passages in the PD, in the event that a regional system cannot be ready by 2011. But the recommendation in this Decision should be strengthened to urge the ARB to **target** the transition to a regional electronic tracking system to 2011, not simply to “lead a regional development effort.”

Although not a huge amount of time, four years (4th quarter 2007 to 4th quarter 2011) is not an unreasonable amount of time for the creation of a regional greenhouse gas reporting and tracking system, given the existence and availability of the now-operational WREGIS platform. APX, the software developer for WREGIS, stated during the April workshops in this Joint Proceeding that extending WREGIS into a multi-attribute tracking system is well within the realm of possibility. And the WREGIS organization, a subcommittee of the WECC, is already in place and functioning, just waiting to receive its next assignment.

There is an intrinsic link between greenhouse gas tracking and reporting, and the issue of Point of Regulation, the subject of the August 21 En Banc Joint CPUC / CEC Hearing, as

well as recent *Comments* in these dockets. A regional greenhouse gas reporting and tracking system could keep track of two types of tags: emissions liabilities, which originate with generators, and emissions allowances, which are administratively created and can be fed into the system in a variety of ways, including directly to generators, directly to retail providers, and open auction to market participants. With this type of system in place, the issue of point-of-regulation can be as flexible as all account holders who hold emissions liabilities at the end of each reporting period, or more specific, such as generators (source-based), or retail providers (load-based).

Seen from this perspective a source-based compliance system simplifies the process by requiring that all emissions liabilities be retired at their source (emissions liabilities are not transferable in a source-based system), leaving only emissions allowances to be transferable among market participants through their accounts in the electronic tracking system. We note that the NEPOOL GIS and PJM tracking system demonstrate that comprehensive emissions-attribute tracking is absolutely available with today's software technology, so tracking technology is not a barrier to being able to track transfers of both types of tags (liabilities, allowances).

Emissions Factors for Imported Power from Unspecified Sources

In discussing the determination of regional emissions factors for use in the interim tracking system, the PD states, on page 30:

We are not persuaded by the concerns that parties raise about Staff's approach to calculating the Northwest and Southwest default emission factors. We are firmly committed to accurate reporting that reflects actual regional variations in emission factors. Establishing an artificially high default emission factor would not be consistent with our goal of accurate reporting.

We agree that the goal should be accurate reporting. However, we continue to be concerned that the approach to developing regional emissions factors for out-of-state electricity that is embraced in the PD is not accurate, and is at odds with the apportionment of emissions being made in the originating source regions for their own native load. Moreover, we believe that by adopting emissions factors that are inconsistent

with the residual emissions factors being adopted in the source regions puts California's retail providers at a high risk of future non-compliance with their AB 32 obligations. When the day does arrive that regional greenhouse gases are electronically tracked in a WECC-wide system, underestimating the emissions associated with imports to California now will result in the importing retail providers seeing a major jump in their system-wide emissions at the very time that they become subject to real emissions limitations. We prefer the use of average regional emissions factors, not the marginal factors used in the PD that seem to be well below the average levels for the various regional mixes. From the perspective of risk minimization, overestimating emissions factors now for imported, unspecified-source electricity will not hurt California's retail providers when comprehensive regional tracking goes into effect. However, underestimating the emissions factors now has the potential to cause serious injury to the state's retail providers in the future when accurate regional tracking does go into effect.

In section VI.A. of the PD, the discussion notes that the ARB is already engaged in developing a reporting system for generators of electricity. The text notes, on page 35: "ARB intends to establish emission factors for all specified and unspecified sources." The GPI's recommendation to the joint Commissions is to pass a Reporting and Tracking Decision recommending an interim reporting and tracking system now **without** predetermining the actual regional emissions factors to be applied to imports of electricity from unspecified sources, and allow the ARB to set the actual factors in their own proceeding. The joint Commissions should urge the ARB to work with their regional counterparts in apportioning regional emissions in order to achieve an accounting that is not only as accurate as it can be, but also consistent with emissions factors used by our regional neighbors. At the very least, it should be the goal of all WECC states and provinces that the sum of the estimated emissions for the various jurisdictions should be approximately equal to the sum of total regional emissions. That will not be the case if both generating states and purchasing states cherry-pick the emissions they will take credit for as serving their own loads.

Carbon Intensity and Procurement Decisions

The next paragraph on page 30 of the PD presents the following argument:

We are not convinced by parties' assertion that entities will arbitrage regional variations in emission factors. With the many factors that must be balanced by retail providers when making procurement decisions, it seems unlikely that a differential in regional emission factors would induce retail providers to engage in extra trades to "launder" high GHG-emission resources.

This paragraph should be excised from the Decision. Its failing is that it contradicts fundamental economic principles. Indeed, all proponents of the use of market mechanisms to ensure efficiency in greenhouse gas policy should be surprised to discover that retail providers are unlikely to take carbon intensity into account in their procurement decisions, even when the availability of emissions allowances is being ratcheted inexorably downward on a year-by-year basis. The short-term elasticity of electricity demand may be low, but it is certainly not zero. Moreover, the relevant metric is the long-term elasticity. It takes long-term commitments to new, greenhouse gas-free generation to reduce the total emissions that serve California load. Long-term elasticity for electricity demand is unquestionably greater than short-term elasticity.

We believe, backed by widely accepted economic theory, that as the AB 32 program works to decrease greenhouse gas emissions in California, the carbon intensity of energy sources increasingly will be expressed in the price of wholesale power, and market participants will react accordingly. The joint Commissions should strive to create markets in which the cost of carbon intensity can be accurately reflected, and easily acted on by all buyers and sellers of electricity. Pretending that dispatch decisions will not or should not be affected by carbon intensity is an impediment to meeting the AB 32 goal of reducing greenhouse gas emissions.

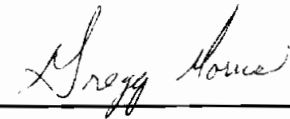
Conclusion

The Green Power Institute favors the adoption of the PD with the several changes argued for above. In particular, the joint Commissions should recommend to the ARB that they **target** 2011 for the establishment of a regional electronic tracking system for greenhouse

gas emissions, should either not adopt numerical regional emissions factors at all in this Decision, or adopt emissions factors for imports of unspecified resources for use in the interim tracking system that are more reflective of regional averages, and should strive to develop trading markets and rules that allow carbon intensities to be transparently expressed and acted on by all electricity-market participants.

Dated August 24, 2007, at Berkeley, California.

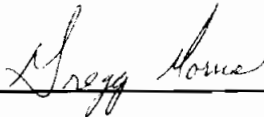
Respectfully Submitted,

A handwritten signature in cursive script, reading "Gregory Morris", is positioned above a horizontal line.

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PROOF OF SERVICE

I hereby certify that on August 24, 2007, I have served a copy of the COMMENTS OF THE GREEN POWER INSTITUTE ON THE PROPOSED DECISION OF COMMISSIONER PEEVEY upon all parties listed on the Service List for this proceeding, R-06-04-009. All parties have been served by email or first class mail, in accordance with Commission Rules.

A handwritten signature in cursive script, appearing to read "Gregory Morris", is written over a solid horizontal line.

Gregory Morris