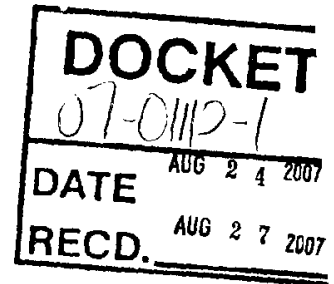


**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

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

R. 06-04-009



**COMMENTS  
OF THE ALLIANCE FOR RETAIL ENERGY MARKETS  
ON THE PROPOSED DECISION ON REPORTING AND TRACKING  
OF GREENHOUSE GAS EMISSIONS IN THE ELECTRICITY SECTOR**

Gregory S. G. Klatt  
DOUGLASS & LIDDELL  
21700 Oxnard Street, Suite 1030  
Woodland Hills, California 91367  
Telephone: (818) 961-3002  
Facsimile: (818) 961-3004  
Email: [klatt@energyattorney.com](mailto:klatt@energyattorney.com)

Attorneys for the  
**ALLIANCE FOR RETAIL ENERGY MARKETS**

Date: August 24, 2007

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In accordance with Rules 14.3 and 14.6 of the California Public Utilities Commission's ("CPUC" or "Commission") Rules of Practice and Procedure, the Alliance for Retail Energy Markets ("AREM") respectfully submits the following comments on the Proposed Decision of Commissioner Michael R. Peevey dated August 15, 2007, titled *Interim Opinion on Reporting and Tracking of Greenhouse Gas Emissions in the Electricity Sector* ("Proposed Decision").<sup>1</sup>

**I. INTRODUCTION**

In the Proposed Decision, the CPUC and the California Energy Commission ("CEC" or "Energy Commission") jointly recommend that the California Air Resources Board ("ARB") adopt a set of proposed rules for the reporting and tracking of greenhouse gas ("GHG") emissions in the electricity sector. The proposed rules were developed based on information presented to the CPUC and the CEC at a joint workshop held on April 12-13, 2007, a joint staff report titled "Joint California Public Utilities Commission and California Energy Commission

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<sup>1</sup> AREM is a California mutual benefit corporation whose members are electric service providers that are active in California's direct access market. The positions taken in this filing represent the views of AREM but not necessarily those of particular members or any affiliates of its members with respect to the issues addressed herein.

Staff Proposal for an Electricity Retail Provider GHG Reporting Protocol” (“Staff Proposal”), materials incorporated into the record by various rulings, and comments filed by the parties in this proceeding. AReM was an active participant in that process and welcomes this opportunity to comment on the proposed rules to be presented to ARB for adoption.

AReM fully supports the State’s goals of limiting and reducing GHG emissions, and the energy service providers (“ESPs”) that constitute AReM’s membership stand ready to do their part to help the State achieve those goals. AReM’s primary objective in the current phase of this proceeding is to assist the CPUC and the CEC to develop rules for GHG emissions reporting and tracking that meet the requirements of regulators without unfairly disadvantaging ESPs or imposing unnecessarily complex or burdensome reporting-related requirements on such entities. To that end, AReM provided extensive comments on the Staff Proposal, including recommendations for modifying and clarifying certain of the staff-proposed rules. On many of the issues on which AReM commented, the Proposed Decision either adopts AReM’s recommendation or otherwise resolves the issue in a manner that addresses AReM’s objections and concerns.

AReM thus supports adoption of the following elements and provisions of the Proposed Decision and/or the proposed rules set forth in Appendix A thereto:

- Retail sellers are to be required to submit reports on an annual basis, as provided in the Staff Proposal and recommended by AReM, not a quarterly basis, as some parties had recommended at the workshop and in comments.
- The reporting template set forth in the proposed rules will, as AReM recommended, streamline the reporting process for retail sellers that do not own generation.

- The proposed rules do not include the unnecessary and burdensome requirement, as proposed in the Staff Proposal and opposed by AReM, for retail sellers to include additional detailed information for purchases from out-of-state sources in their annual reports that is already reported by suppliers to ARB and various federal agencies.
- The Proposed Decision defers development of reporting verification requirements to ARB, which has already initiated that process.

Additionally, and without taking a position on the accuracy of the recommended default emission factors set forth in Table 1 of the Proposed Decision, AReM supports using a single default factor for purchases from both the California Independent System Operator's ("CAISO") real-time market and Integrated Forward Energy Market; supports the addition of a default factor for purchases from "other in-state unspecified resources"; and notes that proposed default factors for the Northwest and Southwest power pools have a smaller differential than those recommended in the Joint Staff Report, which can be expected to reduce the possibility that the GHG compliance strategies of retail sellers will increase congestion on the already overtaxed north-south transmission lines used to serve load in California. AReM is also encouraged that the Proposed Decision urges ARB to lead a regional effort to develop and implement a regional reporting and tracking system, and urges the Commission to recommend further that ARB work closely with the Western Region Electricity Generation Information System ("WREGIS") Board to that end.

Notwithstanding these positive features of the Proposed Decision, AReM is concerned that the proposed rules for attributing emissions to specified purchases could unfairly disadvantage ESPs and have other unintentional and undesirable effects. AReM urges the Commission to further strengthen the Proposed Decision by modifying the proposed rules to

provide equitable treatment to all purchases from specified sources, including purchases from existing resources under new contracts and purchases of “null power” from renewable resources.

Specifically, the proposed rules should be modified to:

- (1) Delete the requirement that imposes a default emission factor to purchases made from specified existing resources under contracts that have been entered into after January 1, 2008; and
- (2) Provide that purchases of “null power” from renewable resources will be attributed emissions based on the resource’s actual (or reasonably estimated) emissions, subject to certain conditions, rather than imputing the regional default emission factor to such purchases.

## **II. COMMENTS**

### **A. The Proposed Rules Should Not Differentiate Between Purchases from Specified Sources Based on the “Vintage” of the Underlying Contract or Resource.**

In response to concerns about “contract shuffling” and to ensure that reported reductions in GHG emissions are “real,” the Proposed Decision recommends that, among other things, ARB should “attribute emissions associated with any purchases from existing resources under new contracts based on the default emission factor of the region in which the specified source is located.”<sup>2</sup> This recommendation is codified in Rules 3.3 and 3.4 of the proposed rules, which provide in pertinent part that “purchases from specified sources” will be attributed emissions “based on the default emission factor for the region in which the specified source is located” unless the purchase is made through: (1) a contract that was in effect prior to January 1, 2008, and either is still in effect or has been renewed without interruption; and/or (2) a contract for

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<sup>2</sup> Proposed Decision, p. 18.

power from a power plant that became operational on or after January 1, 2008. In other words, purchases from specified sources that do not meet one of the aforesaid conditions will be treated as purchases from unspecified sources. These proposed conditions are premised on an assumption that such purchases will thwart real emissions reductions because the existing units entering into the new contract would have run anyway. While perhaps well intentioned, this reporting convention will impose real economic costs on retail sellers that will likely outweigh the potential improvements in emissions reductions, and should not be adopted as explained further below.

**1. Retail sellers should not be penalized simply for purchasing power from existing resources.**

First, it would not be reasonable to penalize a retail seller simply for purchasing power from an existing resource. Yet that is exactly what could happen under the proposed rules. This result is not justified by the possibility that reductions in GHG emissions attributable to purchases from existing resources with zero or low GHG emissions to serve load in California could be “offset” by the dispatch of resources with higher GHG emissions to serve load in nearby states; that is a regional issue that should be addressed on a regional basis. As noted in AReM’s comments on the Staff Proposal, “Until the entire region operates with a similar regulatory mandate, the nature of interstate commerce is such that supplies will flow to demand.” Moreover, a retail seller may have decided to purchase power from an existing resource for reasons that have little or nothing to do with GHG emissions. For example, the resource might be certified as a producer of renewable energy for purposes of California’s Renewables Portfolio Standard (“RPS”) program. Or the resource might be a qualified resource for purposes of the CPUC’s Resource Adequacy program.

**2. Retail sellers should be encouraged to procure power from resources with zero or low emissions, including existing resources, to the maximum extent possible.**

Second, retail sellers should be encouraged to procure power from specified sources with zero or low GHG emissions, including purchases from existing resources, to the maximum extent possible. Purchases from existing resources with zero or low emissions under new contracts can reasonably be expected to foster the development of new resources with zero or low emissions by providing investors with more accurate price signals to estimate the future market value of such supplies. Penalizing retail sellers for such purchasing would thus be counterproductive. It would also be unfair, particularly where the retail seller's action are a lawful, rationale response to regulatory requirements or customer demands to limit or reduce GHG emissions associated with the production of the energy they sell to their customers.

**3. Treating purchases from existing resources under new contracts like purchases from unspecified resources would unfairly disadvantage ESPs.**

Third, treating purchases from existing resources under new contracts as purchases of unspecified resources from the region in which the specified source is located would unfairly disadvantage ESPs. Rule 3.2 of the proposed rules provide for emissions associated with resources that are owned or partially owned by a retail seller to be attributed based on the specified source's actual (or estimated) emissions. That could benefit retail sellers such as the investor-owned and publicly owned utilities, which own significant amounts of generation. As the Commission is aware, however, ESPs typically do not own power plants in California at this time. Moreover, the utilities are far more likely than ESPs to currently have contracts with existing resources in California that produce zero or low GHG emissions. Thus, under this proposed rule, the utilities that own generation and have long-term power purchase agreements will generally be credited with emissions based on the specified source's actual (or estimated)

emissions<sup>3</sup>, while ESPs who typically manage their business with shorter-term contracts will be credited with default emission values, even when they are purchasing clean resources, creating an unfair competitive advantage for the investor-owned and publicly owned utilities.

**4. Attributing GHG emissions to purchases from existing resources based on default emission factors would be inconsistent with the CPUC's resource adequacy requirements.**

The possibility that a retail seller could have emissions attributed to purchases from a specified source based on a default emission factor is inconsistent with the resource adequacy requirements adopted by the CPUC for load-serving entities ("LSEs"), including investor-owned utilities and ESPs, that are subject to its regulatory authority for such purposes under Section 380 of the Public Utilities Code. Pursuant to those requirements, LSEs are required to contract for capacity from specific resources that meet certain technological and operational requirements. To the extent an LSE will be attributed GHG emissions for "purchases" of energy from the same resource based on a default emission factor (e.g., because the purchase is from an existing resource under a new contract) and the default factor is higher than the resource's actual emissions, the LSE could be penalized to the extent the resource actually produces and delivers power to the grid. Given the limited pool of resources that can be used to meet resource adequacy requirements, some LSEs could be forced to choose between being penalized by the CPUC for noncompliance with resource adequacy requirements or being penalized by ARB for not attaining required reductions in GHG emissions.

**B. The Proposed Rules Should Not Discourage Purchases of "Null Power" from Renewable Resources.**

The Proposed Decision recommends that ARB attribute emissions for purchases of "null power" from renewable resources based on "the default emission factor of the region in which

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<sup>3</sup> See Rule 3.2.



null power is generated.”<sup>4</sup> This recommendation is codified in Rules 3.3 and 3.4 of the proposed rules, which in pertinent part require retail sellers to identify any purchases of null power and provide that “ARB attributes emissions for any purchases of null power based on the default emission factor of the region in which null power is generated.”

The Proposed Decision reasons where the power produced by a renewable resource and the associated Renewable Energy Credits (“RECs”) are sold to different parties, the GHG characteristics of the renewable power could be double counted. That is a concern, however, only if RECs associated with the renewable power have been sold separately *and* can be used for GHG compliance purposes. To the extent the associated RECs cannot be used for GHG compliance, the emissions attributed to the null power should be based on the renewable resource’s actual emissions regardless of what is done with the RECs.

Accordingly, the Proposed Decision should be modified to recommend that purchases of “null power” from renewable resources be treated the same as other purchases from specified sources only where the associated RECs can be used for GHG compliance purposes, and the proposed rules should be modified to conform with the Commission’s recommendation.

#### **IV. CONCLUSION**


For the foregoing reasons, AReM urges the Commission to modify the Proposed Decision and the proposed rules to provide equitable treatment to all purchases from specified sources, including purchases from existing resources under new contracts and purchases of “null power” from renewable resources. AReM’s proposed redlines to the proposed rules are attached

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<sup>4</sup> Proposed Decision, p. 22.

hereto as Attachment A. AReM's proposed findings of fact and conclusions of law are attached hereto as Attachment B.

Respectfully submitted,

  
Gregory S.G. Klatt

DOUGLASS & LIDDELL  
21700 Oxnard Street, Suite 1030  
Woodland Hills, California 91367  
Telephone: (818) 961-3002  
Facsimile: (818) 961-3004  
Email: [klatt@energyattorney.com](mailto:klatt@energyattorney.com)

Attorneys for the  
**ALLIANCE FOR RETAIL ENERGY MARKETS**

Date: August 24, 2007

## **ATTACHMENT A**

**(AReM Redline)**

# **Proposed Electricity Sector Greenhouse Gas Reporting and Tracking Protocol**

### **3.3 Purchases and Exchanges from Specified Sources**

For power purchased from each specified source that reports under ARB's source-based reporting program, or received from such a specified source under exchange agreements; provide the ARB plant identification code and the quantity of electricity purchased, including associated transmission losses.

For power purchased from each specified source not reporting under ARB's source-based reporting system, provide the plant name and identification code, and the quantity of electricity purchased, including associated transmission losses.

For each purchase from a renewable resource, indicate whether the power is null power.

If substitute energy accounts for more than 15 percent of the energy received under a plant-specific purchase agreement, report only deliveries from the specified source in this section. Report the substitute energy in the appropriate category in Section 3.5.

1.

### **3.4 Calculation of Emissions for Purchases and Exchanges from Specified Sources**

For each purchase from a specified source that reports under ARB's source-based reporting program and meets one or more of the conditions specified in Section 3.3, ARB attributes emissions from these plants proportionately based on the share of net generation purchased.

For all other purchases from a specified source that meets one or more of the conditions specified in Section 3.3, ARB calculates emission factors using data from finalized reports under 40 CFR Part 75 or plant-level fuel consumption data from the Energy Information Administration if Part 75 data are not available, and attributes emissions based on the calculated emission factors and net generation purchased.

For each purchase from a specified source that does not meet one or more of the conditions specified in Section 3.3, ARB attributes emissions based on the net generation purchased and the default emission factor for the region in which the specified source is located, calculated as described in Section 3.6.

For each purchase of null power where the associated RECs have been retired for GHG compliance purposes by other than the purchaser of the null power, ARB attributes emissions based on the default emission factor of the region in which the null power was generated.

## **ATTACHMENT B**

### **Proposed Findings of Fact**

1. A retail seller may purchase power from an existing resource for reasons that have little or nothing to do with GHG emissions.
2. Retail sellers should not be discouraged from purchasing power from resources with zero or low emissions, including existing resources.
3. Penalizing retail sellers for purchasing power from existing resources under new contracts would unfairly disadvantage ESPs.
4. Attributing emissions to purchases from existing resources under new contracts based on default emission factors would be inconsistent with our Resource Adequacy requirements.
5. Attributing emissions to purchases of null power based on regional default emission factors is appropriate only where the RECs associated with the power have been used for GHG compliance purposes by other than the purchaser of the null power.

### **Proposed Conclusions of Law**

1. It would be unreasonable to penalize retail sellers for purchasing power from an existing resource.
2. Purchases of null power from renewable resources should not be discouraged.

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served a copy of the foregoing document on all parties of record in the above captioned proceedings by serving an electronic copy on their email addresses of record and, for those parties without an email address of record, by mailing a properly addressed copy by first-class mail with postage prepaid to each party on the Commission's official service list for this proceeding.

This Certificate of Service is executed on August 24, 2007, at Woodland Hills, California.

  
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Michelle Dangott