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**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 06-04-009  
(Filed April 13, 2006)

**California Energy Commission Docket #07-OIIP-01**

**REPLY COMMENTS OF THE NATURAL RESOURCES DEFENSE COUNCIL  
(NRDC), UNION OF CONCERNED SCIENTISTS (UCS) AND GREEN POWER  
INSTITUTE (GPI) ON ALLOWANCE ALLOCATION ISSUES**

November 14, 2007

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**I. INTRODUCTION AND SUMMARY**

The Natural Resources Defense Council (NRDC), Union of Concerned Scientists (UCS), and Green Power Institute (GPI) respectfully submit these reply comments in accordance with the "Administrative Law Judge's Ruling Requesting Comments and Noticing Workshop on Allowance Allocation Issues" (ALJ Ruling), dated October 15, 2007, and in accordance with Rules 1.9 and 1.10 of the California Public Utilities Commission's (CPUC) Rules of Practice and Procedure. NRDC/UCS/GPI also concurrently submit these comments to the California Energy Commission (CEC) in Docket #07-OIIP-01, the CEC's sister proceeding to this CPUC proceeding.

NRDC is a non-profit membership organization with a long-standing interest in minimizing the societal costs of the reliable energy services that a healthy California economy needs. In this proceeding, NRDC represents its more than 124,000 California members' interest in receiving affordable energy services and reducing the environmental impact of California's energy consumption. UCS is a leading science-based non-profit working for a healthy environment and a safer world. Its Clean Energy Program examines the benefits and costs of the country's energy use and promotes energy solutions that are sustainable both environmentally and economically. GPI is the renewable energy program of the Pacific Institute, a leading environmental research and

advocacy institution that is active in water and energy issues. The GPI has performed pioneering research on the greenhouse gas implications of renewable energy production.

In these comments, NRDC/UCS respond to opening comments filed by parties on October 31, 2007 on allowance allocation and distribution issues in a greenhouse gas (GHG) regulatory system for the electricity and natural gas sectors.<sup>1</sup> In summary, our reply comments elaborate on the following key points:

- ◆ The Allowance Value Should Be Distributed to Benefit Consumers and to Invest in Emission Reductions
- ◆ The Commissions Should Not Recommend Grandfathering (Giving Allowances Away for Free Based on Emissions), Which Would Reward the Biggest Polluters
- ◆ CARB Has Legal Authority to Auction and to Use Revenues to Benefit Consumers
- ◆ The Commissions Should Continue to Treat Energy Efficiency as the Least Cost Procurement Resource

## **II. THE ALLOWANCE VALUE SHOULD BE DISTRIBUTED TO BENEFIT CONSUMERS AND TO INVEST IN EMISSION REDUCTIONS**

### **1. The Commissions should recommend an allowance distribution method that is in the public interest – benefiting consumers and furthering AB 32's goal to reduce emissions.**

Parties advocated various allocation distribution proposals in their opening comments, and in most cases, they supported an option that would be in their own self interest. Regional and other differences notwithstanding, the Commissions' ultimate responsibility is to serve the public interest of the entire state. The Commissions should carefully weigh the options for allocation in order to make an informed recommendation to the California Air Resources Board (CARB) as to the appropriate allowance

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<sup>1</sup> These parties included, among others: Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas and Electric Company and Southern California Gas Company (SDG&E/SCG), Division of Ratepayer Advocates (DRA), The Utility Reform Network (TURN), Southern California Public Power Authority (SCPPA), Los Angeles Department of Water and Power (LADWP), Sacramento Municipal Utility District (SMUD), AES Southland LLC (AES), FPL Energy Project Management Inc. (FPL Energy), Western Power Trading Forum (WPTF), Morgan Stanley Capital Group Inc. (MSCG), PacifiCorp, Climate Protection Campaign (CPC), Ken Johnson, Independent Energy Producers Association (IEP), Energy Producers and Users Coalition/Cogeneration Association of California (EPUC/CAC), Alliance for Retail Energy Markets (AReM).

distribution option for the electricity and natural gas sectors that will ensure that allowances (which have value because they permit pollution into the atmosphere) will benefit the public (the owners of the atmosphere).

There are several different allowance distribution options (including distribution of auction revenues to benefit consumers and free allocation of allowances to benefit consumers) under either the load-based or first-seller regulation approaches that NRDC/UCS and GPI presented in their opening comments that would allow allowances to be used in the public interest. We urge the Commissions to consider the options we presented and to carefully examine other proposals presented by other parties to ensure that the Commissions' ultimate allocation distribution recommendation will be in the public interest – benefiting consumers and furthering AB 32's goal to reduce emissions.

**2. The majority of parties support giving the allowance value to consumers regardless of the point of regulation.**

Although parties presented different perspectives on a variety of different issues, there are some points of general agreement worth noting. The majority of parties (including PG&E, SDG&E, TURN, MSCG, CPC, NRDC/UCS, SCPPA) support giving the allowance value to consumers, regardless of the point of regulation. On the other hand, WPTF argues that “the point of allocation should coincide with the point of regulation in a GHG trading system and opposes allocation of allowances to retail providers under a first-seller approach” (p. 15). NRDC/UCS again stress that the point of regulation need not be the same as the point of allocation, and the allocation system should ensure that consumers benefit regardless of the point of regulation. Of course, it is not enough to simply state a desire to give the allowance value to consumers, and the system must be designed in such a way that consumers will be able to realize the value of the allowances.

**3. Many parties agree that any auction revenues should be returned to the electricity and natural gas sectors, and invested primarily in reducing GHG emissions.**

If an auction or sale is used to monetize the value of the allowances, the majority of parties support returning the value of the allowances to the electricity and natural gas sectors (including TURN, SCPPA, SDG&E/SCG, SMUD, FPL Energy, IEP, EPUC/CAC, AReM, Pacficorp, NCPA, PG&E). Most parties also agree that auction revenue should be primarily used to invest in reducing GHG emissions in these sectors (including PacifiCorp, GPI, DRA, SCPPA, SMUD, FPL Energy, NCPA, SDG&E/SCG,).

However, some parties opposed auctions due to concerns that revenues collected through an auction would be diverted and no longer be available for use in the electricity and natural gas sectors and/or investments to reduce GHG emissions in these sectors (e.g., SCPPA, p. 27; SDG&E/SCG, p. 7). NRDC/UCS/GPI urge the Commissions to *first* decide if an auction is the best allowance distribution mechanism, and if so, then recommend that it be designed to avoid diversion of revenues, rather than ruling out auctions from the start as some parties recommend. For example, MSCG's Auction Revenue Rights (ARR) proposal (p. 14) is one avenue that should be explored to provide confidence that auction revenues will not get diverted from their intended purposes.

**III. THE COMMISSIONS SHOULD NOT RECOMMEND GRANDFATHERING (GIVING ALLOWANCES AWAY FOR FREE BASED ON EMISSIONS), WHICH WOULD REWARD THE BIGGEST POLLUTERS**

**1. California should not shield those entities who took on the risks of high GHG-emitting resources, at the expense of those who managed the risk well, by grandfathering allowances.**

Some parties who support grandfathering of allowances argue that it is necessary to avoid harming those entities that made investments in high GHG-emitting technologies prior to AB 32. For example, SCE expresses concern that "some generators will be harmed on the basis of decisions they made prior to implementation of AB 32" (p. 19).

(SCE's proposal for allocation based on "economic harm" is quite similar to grandfathering allowances, and would reward high-emitting entities.<sup>2</sup>) AES states, "Investments were made in these existing [fossil fuel] capital-intensive assets under a completely different regulatory regime that did not anticipate GHG regulations. Any allowance distribution methodology that is adopted must allow sufficient time for these entities to transition to a carbon-constrained environment without causing unintended consequences or unfairly harming those that have invested in California's electricity sector." (p. 2) AES argues for grandfathering of allowances, claiming a need for a "sufficiently long (e.g. 15 years or longer)" (p. 5) transition period to an auction.

The threat of global warming and the risk of forthcoming GHG regulations have been known to parties for *over* 15 years. There has been ample notice and, in essence, a long transition period already.<sup>3</sup> For example, the Intergovernmental Panel on Climate Change (IPCC) First Assessment Report was completed in 1990.<sup>4</sup> The United Nations Framework Convention on Climate Change (UNFCCC) entered into force in 1994.<sup>5</sup> The Kyoto protocol was signed in 1997.<sup>6</sup> In addition, more than 15 years ago, there was early notice given to, and acknowledgement by, the utility industry in California of the need to take into account the risks of global warming. In 1991, a broad coalition of consumer and environmental advocates, led by the National Association of State Utility Consumer Advocates (NASUCA) and NRDC, sent an open letter to the managers of the U.S. utility industry that emphasized that resource planning must take into account the risks with continued growth in greenhouse gas emissions, and warned that utilities should manage the risk, or bear the risk.<sup>7</sup> Later that same year, SCE and LADWP jointly announced

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<sup>2</sup> "Economic harm" is essentially nothing more than what can properly be called the "cost" of implementing AB 32 due to the historic/current GHG emissions of a regulated entity.

<sup>3</sup> An additional transitional period is not necessary, since entities have already had, in essence, grandfathering, with excess allowances, for the last 15-20 years.

<sup>4</sup> See <http://www.ipcc.ch/pub/reports.htm> for a timeline of IPCC publications.

<sup>5</sup> See [http://unfccc.int/essential\\_background/convention/items/2627.php](http://unfccc.int/essential_background/convention/items/2627.php).

<sup>6</sup> See [http://unfccc.int/kyoto\\_protocol/items/2830.php](http://unfccc.int/kyoto_protocol/items/2830.php).

<sup>7</sup> NASUCA and NRDC, "An Open Letter to the Managers of the U.S. Utility Industry, Re: Implications of the Greenhouse Challenge for the Utility Planning, Financial Risks, and Future Prudency Reviews," January 31, 1991. A copy of this open letter is attached.

their plans to each reduce their carbon dioxide emissions by 10 percent by 2000, and 20 percent by 2010.<sup>8</sup>

California should not shield those entities who took on the risk of investing in high GHG-emitting resources in the face of mounting evidence of the threat of global warming, at the expense of those who managed the risk well. Those who accepted the risk should bear the risk. Grandfathering allowances would unnecessarily shield those entities who took GHG risks, while penalizing those who took early action to manage the risk, and we urge the Commissions to reject this allocation approach.

## **2. Grandfathering of allowances penalizes early actors.**

Most parties support rewarding early action, and the allowance distribution methods that NRDC/UCS proposed in opening comments would all reward early action. However, grandfathering allowances, particularly on the basis of emissions from a year close to the start of the program, would fail to recognize and reward those entities that have taken early action to reduce their GHG emissions and instead rewards the biggest polluters who did not act in advance of regulations. LADWP recommends that “CARB should consider early actions to reduce emissions through energy efficiency that may not be reflected in an allowance allocation” (p. 17-18). At the same time, LADWP supports grandfathering of allowances (p. 12), which would penalize entities that have taken action already or that take action between now and 2012 to reduce their GHG emissions. Similarly, although SMUD states its support for rewarding early actions, it proposes an initial allocation through grandfathering in 2012, transitioning to an updated benchmarking allocation by 2020, yet still claims that this “scheme encourages early reductions in high carbon resources, rewards early leaders” (p. 10). While the updated benchmarking allocation in the later years of the program would reward early actors, the initial grandfathering allocation would penalize early actors, resulting in mixed signals at best.

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<sup>8</sup> SCE, “Southern California Edison Initiates Emission Reductions; “No Regrets” Plan May Help Prevent Potential Global Warming” News Release, May 20, 1991; and “Carbon Dioxide Emission Reduction Strategy,” Joint Statement of Southern California Edison and Los Angeles Department of Water and Power, 1991. A copy of this press release and statement is attached.

**3. SCPPA's concern that auctions would require some entities to "pay twice" can easily be addressed, and grandfathering is not the appropriate solution since it will disadvantage California in the long run.**

SCPPA claims, "It would be punitive to require SCPPA and its members to bear both the massive cost of shifting from their historic reliance [on] carboniferous resources and the cost of acquiring allowances through an auction" (p. 15) and proposes a grandfathering allocation method as its solution. First, in an auction, entities would be paying to pollute based on their actual emissions, so they would not be "paying twice;" any investment that reduces emissions would enable the entity to buy fewer allowances in the auction. Second, SCPPA's assertion appears to be based on the assumption that auction revenues will not be available to benefit its members. However, as we discussed above, many parties agree that auction revenues should be returned to the electricity and natural gas sectors and invested primarily in reducing GHG emissions, which would directly address SCPPA's concern. For example, in our opening comments, NRDC/UCS proposed a "revenue recycling" option that would allow utilities to keep a portion of the amount they spend in the auction to invest in specified and verified ways to reduce GHG emissions (p. 10).

In fact, grandfathering allowances could result in Californians having to "pay twice." Grandfathering allowances would set a very poor precedent for a federal program, and as FPL Energy notes, "If the nation adopts a free allocation methodology, California exposes its consumers to the costs of cleaning up emissions in states or regions with less efficiency generation portfolios" (p. 18). California would be wise to set a good example that would not harm its own consumers in a federal system.

**4. LADWP's concerns regarding wealth transfer from more GHG-intensive entities to less GHG-intensive entities also can happen in the opposite direction under grandfathering.**

In arguing for free allocation of allowances based on current emissions (in other words, grandfathering), at least initially, LADWP states, "We do not support a wealth transfer between regulated entities and the state or among regulated entities" (p. 2). LADWP is concerned that allocation methods other than grandfathering will result in

wealth transfers from retail providers that are relatively dirty from a GHG perspective to those who have cleaner GHG footprints. However, it is also important to recognize that a “wealth transfer” can happen in the opposite direction under a grandfathering allocation approach, from cleaner to dirtier utilities. Since higher-emitting utilities have more low cost opportunities to reduce emissions, grandfathering effectively creates a “wealth transfer” from lower-emitting utilities to higher-emitting utilities; this could even require the customers of those cleaner utilities to “pay twice” since they have already paid for their own cleaner systems. Of course, the actual outcome would depend on the particular circumstances of any given utility. We urge the Commissions to focus on the core equity considerations, since these arguments can be made about any allowance distribution system.

**5. WPTF’s arguments regarding windfall profits and justification for free allocation to first sellers are flawed.**

In discussing allocation under a first-seller approach, WPTF argues that “Although allocation of emission allowances to regulated entities under a first-seller approach creates some risk of windfall profits, the potential for such profits is countered by the fact that fossil-fuel generators will face significant compliance costs under GHG regulation” and thus claims a free allocation is warranted (p. 14). The risk of windfall profits arises precisely because the value of allowances freely distributed is much greater than the compliance cost;<sup>9</sup> compliance costs for these entities will *not* completely counter the risk for windfall profits to first sellers, and the Commissions should not recommend free allocation to first sellers.

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<sup>9</sup> See, for example, the discussion in *Allocating Allowances in a Greenhouse Gas Trading System*, National Commission on Energy Policy staff paper, [www.energycommission.org/site/page.php?report=32](http://www.energycommission.org/site/page.php?report=32).

#### **IV. CARB HAS LEGAL AUTHORITY TO AUCTION AND TO USE REVENUES TO BENEFIT CONSUMERS**

**1. Although several parties suggest that CARB does not have the legal authority to create an auction, CARB has the authority from AB 32 to create an auction.**

Several parties suggested in their comments that there might be a legal problem with CARB's authority to create an auction. See SCPPA at 21-22; LADWP at 21; EPUC/CAC at 4-5. CARB can derive the authority to create an auction from AB 32, and may appropriately classify the auction as a regulatory fee, not a tax.

Although AB 32 does not specifically mention an auction, it makes multiple references (in Parts 4 and 5) to the use of "market-based compliance mechanisms," which could easily include an auction. The definition of "market-based compliance mechanisms" laid out in Part 3 includes "[g]reenhouse gas emissions exchanges, banking, credits, *and other transactions*, governed by rules and protocols established by the state board, that result in the same greenhouse gas emission reduction, over the same time period, as direct compliance with a greenhouse gas emission limit or emission reduction measure adopted by the state board pursuant to this division." Health and Safety Code Section 38505(k)(2), *emphasis added*. The term "other transactions" could easily be interpreted to include an auction, given that the specifically mentioned alternatives are of a similar nature, and auctions are commonly discussed market mechanisms in "cap and trade" programs.

There is precedent for the idea that an auction may be an option even where it is not explicitly authorized. For example, several states that are part of the Regional Greenhouse Gas Initiative ("RGGI") plan to use allowance auctions, although neither its Model Rule nor its Memorandum of Understanding explicitly mentions auctions.

In addition, an auction is arguably more equitable than an allocation scheme, as some parties may complain that they have not been allocated a fair share. Thus, an auction would be consistent with Part 4's requirement that CARB "[d]esign the regulations, including distribution of emissions allowances where appropriate, in a manner that is equitable." Health and Safety Code Section 38562(b)(1).

CARB could reasonably interpret AB 32 as giving it the authority to create an auction. A court will give “great weight and respect” to CARB’s reasonable interpretation of the statute. *Yamaha Corp. of America v. State Bd. of Equalization*, 19 Cal. 4<sup>th</sup> 1, 12 (Cal. 1998).

Contrary to EPUC/CAC’s assertion at 4-5, an auction is not a tax. Auction prices could arguably be classified as a regulatory fee, and therefore not a tax under *Sinclair Paint Co. v. State Bd. of Equalization*, 15 Cal. 4<sup>th</sup> 866, 873 (Cal. 1997). *Sinclair* approved of a lower court ruling allowing charges to cover the costs of a pollution emissions permit program, saying that it is acceptable to “shift the costs of controlling stationary sources of pollution from the tax-paying public to the pollution-causing industries themselves.” *Id.* at 879.

- 2. Other parties agree that using revenue from out-of-state generators to benefit their in-state competitors would raise dormant commerce clause problems, but that using revenue to benefit billpayers in a way that does not impact the competitiveness of in-state entities compared to their out-of-state competitors will not violate the dormant commerce clause.**

NRDC/UCS note that several other parties agree with the basic point that using revenue from out-of-state generators to benefit their in-state competitors would raise dormant commerce clause problems, but that using revenue to benefit billpayers in a way that does not impact the competitiveness of in-state entities compared to their out-of-state competitors will not violate the dormant commerce clause. See PG&E at 19; PacifiCorp at 22; SCE at 26; SCPPA at 43-44. As SCPPA notes, the question will turn on whether out-of-state entities are being burdened compared with in-state entities. SCPPA at 44. While also agreeing with this basic analysis, LADWP implies that California would be using auction revenues to neutralize the cost disadvantage faced by in-state entities which must comply with GHG limits. LADWP at 21. It is true that California may not use its regulations to confer a benefit on in-state industries. However, that would be neither the purpose nor effect of an auction, which would merely be an even-handed way to start a market for GHG emissions related to California consumption of electricity.

LADWP also contends that even if auction revenues are collected from power generators but paid to billpayers, this will still implicate DCC concerns because the scheme in *West Lynn Creamery* taxed the dealers and producers but subsidized the farmers. LADWP at 23. However, the point of *West Lynn Creamery* was that the state was advantaging an in-state industry to the disadvantage of its out of state competitors. California utility customers are not in competition with out of state generators, and in-state generators will not gain a competitive advantage because California billpayers benefit from auction revenues.

NRDC/UCS also agree with the assertion that health and safety concerns will justify regulations that have a small or incidental burden on interstate commerce. See EPUC/CAC at 37; SCPPA at 43. California's efforts to reduce its greenhouse gas emissions are ultimately rooted in the health and safety concerns of its citizens.

## **V. THE COMMISSIONS SHOULD CONTINUE TO TREAT ENERGY EFFICIENCY AS THE LEAST COST PROCUREMENT RESOURCE**

### **1. Existing funding sources for important GHG emission reductions should not be replaced with auction revenues as TURN suggests.**

In discussing how auction revenues should be directed, TURN states that "auction revenue proceeds should be used to fund programs currently funded through rates" (p. 18) and that they "should be used to replace some or all of the current numerous GHG-related charges already included in utility rates" (p. 19). TURN specifically states that "Auction proceeds should be used to replace the portion of the public goods charge collected for energy efficiency and renewable energy programs" (p. 21). NRDC/UCS strongly disagree. Auction revenues should not supplant but instead should *augment* funding for existing programs that will provide essential GHG emission reduction measures. To meet the AB 32 limit, the state is counting on the emission reductions from the existing programs, and the utility sectors will also need to reduce emissions significantly *beyond* what the current programs can achieve.

In addition, the existing programs were established for many reasons beyond GHG reductions that remain valid (such as cost-effective resource acquisition, system reliability, reduced exposure to natural gas price volatility, etc.). For example, more than half of the existing \$1 billion that TURN cites in annual funding for programs that reduce GHG emissions is for energy efficiency (p. 19); energy efficiency is the cheapest procurement resource and utilities are procuring efficiency to capture the multiple benefits it provides customers. The utilities' role as resource portfolio managers remains essential (if not even more critical) under AB 32, and the fact that any given resource reduces GHG emissions should not disrupt the utilities' least cost procurement obligation.

Moreover, as SMUD points out, "High quality programs cannot be effectively based on a volatile funding stream" (p. 8). Stability of funding for energy efficiency and renewable energy is very important to successful procurement. The Commissions have seen first hand over the past decade how unstable funding for energy efficiency disrupts the industry and significantly reduces savings for consumers.

NRDC/UCS strongly urge the Commissions to maintain the utilities' portfolio management responsibilities, including procurement of cost-effective energy efficiency and renewable resources, and to recommend that auction revenues augment, not replace, funding for existing programs that reduce GHG emissions

## **2. Contrary to SCPPA's claims of the high cost of energy efficiency, energy efficiency is a cost saver.**

At several places in its comments, SCPPA expresses concern about the "increased costs of expanding energy efficiency programs" (p. 14), that SCPPA members "are going to be required to bear vastly more costs to enhance their energy efficiency" (p. 14), and "The cost of new and expanded end-use energy efficiency programs is going to be even more substantial in the future" (p. 15). On the contrary, energy efficiency is a cost-saver for consumers. As both Commissions have and continue to emphasize, energy efficiency is the cheapest resource available and in fact will lower overall utility customer costs, even absent consideration of its GHG reduction benefits.

## VI. CONCLUSION

NRDC, UCS and GPI commend the Commissions for carefully examining the issues surrounding the appropriate allowance distribution method. We urge the Commissions to recommend a mechanism that is in the public interest, and that distributes the allowance value to benefit consumers and to invest in emission reductions.

Dated: November 14, 2007

Respectfully submitted,



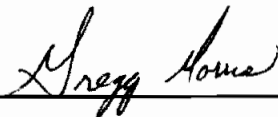
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## CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the **"Reply Comments of the Natural Resources Defense Council (NRDC), Union of Concerned Scientists (UCS), and Green Power Institute (GPI) on Allowance Allocation Issues"** in the **matter of R.06-04-009** to all known parties of record in this proceeding by delivering a copy via email or by mailing a copy properly addressed with first class postage prepaid.

Executed on November 14, 2007 at San Francisco, California.



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January 31, 1991

## AN OPEN LETTER TO THE MANAGERS OF THE U.S. UTILITY INDUSTRY

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### EXECUTIVE DIRECTOR

DEBRA R. BERLYN

Re: Implications of the Greenhouse Challenge for Utility Planning, Financial Risks, and Future Prudence Reviews

Dear Colleague:

This letter is a joint product of two communities with extensive involvement in utility issues: consumer advocates and environmental organizations. Recent scientific and policy developments convince us that the utility industry should be put on notice that its resource planning must take into account risks associated with continuing growth in greenhouse gas emissions. Our decision is based on a growing scientific consensus on the need to reduce emissions of greenhouse gases, as exemplified in recent reports from the Intergovernmental Panel on Climate Change (IPCC).

The IPCC is the broadly representative international body charged by the U.S. and other governments with assessing prospects for global climate change. It has now determined that human activities are substantially increasing the atmospheric concentrations of greenhouse gases; that these increases will warm the earth's surface; and that "business as usual" emissions will result in a warming during the next century that is greater than that seen over the past 10,000 years.

The IPCC cannot rule out surprises that might worsen or moderate this trend, but it calculates with confidence that substantial reductions in current emissions of carbon dioxide and other greenhouse gases would be necessary to stabilize their concentrations in the atmosphere. The United States is the world's largest source of these emissions. Other major nations are already moving to stabilize or reduce carbon dioxide releases; examples include Germany, the United Kingdom, Japan, Denmark, and the Netherlands.

We do not pretend to be able to chart the future of the Earth's climate. We are convinced, however, that findings like those of the IPCC should prompt the utility industry to

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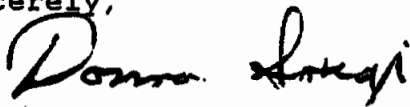
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reassess its strategic plans to account for increased risks of fossil fuel use. Such findings will also likely result in steadily increasing international pressures to reduce fossil fuel use both here and abroad. Those pressures, in turn, suggest several likely consequences. For example, utilities contemplating substantial investments in long-lived fossil fuel technology should begin explicitly to take these risks into account, both in assessing these technologies and in evaluating alternatives. Second, failure to realign resource planning and investment in this way will open those responsible to prudency challenges, if identified risks and alternatives are not responsibly addressed. Third, utility plant extension and refurbishment programs may become less attractive compared with energy efficiency improvements and renewable energy resources.

As the most substantial sources of carbon dioxide per unit of energy produced, coal- and oil-fired generation clearly merit the closest scrutiny in terms of greenhouse risks. Both for new units and long-lived extensions of existing units, an invigorated search for alternatives clearly is needed. However, we do not believe that this imperative will or should result in a nuclear power revival, since that technology still fails tests of financial risk and cost-effectiveness. Its lower carbon dioxide emissions are unlikely by themselves to reassure investors. Moreover, still unresolved problems, including those related to high level nuclear radioactive waste disposal, can not be ignored. This conclusion is reinforced by an abundance of preferable alternatives on both economic and environmental grounds, including efficiency improvements in all sectors of energy use and numerous renewable energy technologies.

Ratepayers' income, utility shareholder investments, and environmental quality will all be at risk, if the utility industry fails to take into account future costs of greenhouse gas emissions in its resource planning. Conversely, all of our constituents stand to gain when utilities cost-effectively substitute what amount to climate defense technologies for additional greenhouse gas emissions. We jointly pledge our best efforts in helping regulators to gauge utilities' performance and to respond appropriately.

Sincerely,



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FOR IMMEDIATE RELEASE

**SOUTHERN CALIFORNIA EDISON INITIATES EMISSION REDUCTIONS;  
"NO REGRETS" PLAN MAY HELP PREVENT POTENTIAL GLOBAL WARMING**

ROSEMEAD, Ca., May 20, 1991 -- Southern California Edison, the nation's second-largest electric utility, and the Los Angeles Department of Water and Power (LADWP), the largest municipal utility, today jointly announced they are adopting a resource strategy that will reduce their carbon-dioxide emissions (CO2) by 10 percent each over the next decade. They also announced the goal of an additional 10 percent reduction each by the year 2010.

A recent National Academy of Sciences Report ("Policy Implications of Greenhouse Warming," 1991), released last month, reviews the current scientific information on greenhouse warming, and concludes that, "Despite the great uncertainties, greenhouse warming is a potential threat sufficient to justify action now."

Southern California Edison plan acts upon this recommendation. "Taking prudent, reasonable economical steps to reduce CO2 emissions is warranted by current scientific understanding of the potential for global warming. Our actions are consistent with the recent policy recommendations of the National Academy of Sciences and we believe they make good environmental, scientific and business sense," said John E. Bryson, Edison Chairman and CEO.

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Edison plans to reduce CO2 emissions from its power plants from the current 31.8 million/year to about 28.3 million tons/year by the year 2000 and down to 25.9 million tons/year in 2010. These CO2 emission reductions will occur despite the fact that Edison will serve 12 million people in the year 2000 compared to the 10 million it serves today. Another 10 percent reduction in CO2 emissions is planned by 2010, even though the population Edison serves will grow by another two million by then.

Edison will achieve these reductions with a three-pronged approach: cost-effective energy efficiency and conservation programs, greater use of alternative and renewable generating resources, and repowering of existing generating plants. In the absence of taking these actions, Edison projects its CO2 emissions will rise from the base of nearly 32 to 35 million tons/year by 2000 and over 39 million tons/year by 2010.

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**Efficiency and Conservation Programs**

Conservation efforts will account for at least 10 billion kwh of electricity being saved annually by the year 2000. That translates into about 4.6 million tons/year of reduced CO2 emissions on the Edison system. Examples of some of Edison 55 conservation and energy efficiency programs include:

- Edison's Welcome Home program, which provides incentives to developers to build homes that surpass state energy-efficiency standards by up to 30 percent.

- Increased use of energy-efficient light bulbs. Edison offers a \$5 rebate to customers who purchase energy-efficient compact fluorescent light bulbs. By giving one million of these bulbs free to low-income customers, the company will save the equivalent of 500,000 barrels of oil over the life of the bulb.

(For further details see press kit enclosure, **Sampling Edison's Energy Efficiency/Conservation Programs**)

Renewable Energy

In 1980, Edison pioneered the development of alternate and renewable technologies. Last year, Edison received 14 percent of its power from non-polluting alternate and renewable energy sources such as hydro, solar, wind, and geothermal energy, and the company uses nine different kinds of energy sources -- more than any other utility in the world. About 400 MW of additional renewable energy will be added to the Edison system in the next decade, reducing CO2 emissions by 1.1 million tons/yearly. While the specific alternate and renewable sources which will make up the 400 MW of new power depends on the outcome of the California bidding process, geothermal and solar technologies will probably make up the majority of the new resources.

In addition, if a recent Edison breakthrough in solar cell technology (co-developed with Texas Instruments), becomes commercially available in the next few years, as planned, this will contribute meaningfully to CO2 reductions.

Efficiency Improvements in Existing Power Plants

Edison plans to repower about 1500 MW of its existing generating capacity in the next decade by converting older, less efficient steam units into combined-cycle systems. These more efficient plants will save about 600,000 tons of CO2 yearly. The company will also phase out burning oil as a fuel, which will reduce CO2 emissions by another 400,000 tons annually.

"It is sound scientific, utility and business policy for us to take actions now that are not unreasonably costly to reduce CO2 emissions over the next two decades. This 'no regrets' approach means that, whether or not CO2 emissions are eventually determined to cause global warming, Edison will not be sorry it took early action," said Bryson.

5/20/91

**Carbon Dioxide Emission Reduction Policy**  
**Joint Statement of Southern California Edison and**  
**Los Angeles Department of Water and Power**

The National Academy of Sciences noted in their recent report "Policy Implications of Greenhouse Warming" that the accumulation of carbon dioxide poses a potential threat sufficient to merit certain actions, despite uncertainties about the extent, timing, and impact of global warming. We believe it is prudent to take reasonable actions at this time without major economic impacts which could reduce the potential threat of greenhouse warming.

We have adopted a goal of a 20% reduction in carbon dioxide emissions by 2010. This will be pursued through immediate implementation of an environmentally sensitive energy plan aimed at achieving a 10% reduction in carbon dioxide emissions by 2000. This energy plan incorporates (1) energy efficiency, (2) conservation programs, (3) generating resources which reduce the emission of carbon dioxide. We believe this reduction can be achieved without significant costs to electricity consumers.

We will also encourage and support an accelerated pace of climate research that will lead to a better understanding of the global climate.