**DOCKET 07-OIIP-01**
**CALIFORNIA ENERGY COMMISSION**
**OPENING COMMENTS OF**
**PACIFIC GAS AND ELECTRIC COMPANY (U 39 E) ON**
**PROPOSED DECISION ON GREENHOUSE**
**GAS REGULATORY STRATEGIES**

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## I. INTRODUCTION

Pursuant to Rule 14.3 of the Commission's Rules of Practice and Procedure, Pacific Gas and Electric Company (PG&E) provides its opening comments on the Proposed Decision (PD) on greenhouse gas (GHG) regulatory strategies under AB 32. PG&E's comments are organized in the following sections below: (1) An executive summary; and (2) Detailed comments on the PD. For convenience, PG&E's detailed comments are organized in the same order as the issue headings used in the PD.

## II. EXECUTIVE SUMMARY

PG&E supports the general framework for GHG regulation proposed by the PD and urges the CPUC, Energy Commission (CEC) and Air Resources Board (ARB) to expeditiously adopt it as the foundation for implementation of AB 32. Although PG&E does not agree with every policy and recommendation in the PD, the PD represents a balanced and fair starting point for implementing one of the most important and complex public policy initiatives in California's history. The PD does defer making recommendations on certain key details in the design of AB 32's regulatory program, including actual emissions limits and reduction goals applicable to the electric and gas sectors; apportionment of GHG emissions reduction responsibility between the electric and gas sector and other sectors and categories of sources; methods for allocating GHG emissions allowances among different sources in the electric sector; cost mitigation strategies to protect consumers; and the results of economic modeling and analyses to determine the most cost effective and technologically feasible emissions reduction strategies. PG&E looks forward to actively participating in the next phases of this proceeding where these significant regulatory design issues will be considered and evaluated. Nonetheless, the PD represents a landmark and well-crafted cornerstone for implementation of AB 32, and PG&E commends the CPUC and CEC and their staffs for the enormous and timely work and well-reasoned analysis that are embodied in the PD.

## III. DETAILED COMMENTS

### A. Multi-Sector Cap and Trade Program including the Electric Sector

PG&E agrees with the PD that a well-designed multi-sector cap and trade program should be an essential part of AB 32 implementation, because a cap and trade system can help provide environmental certainty and lower costs, and create a carbon price signal that will attract investments to achieve long-term, sustained emissions reductions.

In particular, PG&E agrees with the PD that the scope of the cap and trade program should include the electric sector and should be broad and transparent in order to ensure liquidity and flexibility in achieving sustained, verifiable GHG reductions. PG&E believes that a well-designed, transparent cap and trade system and resulting emissions trading market will provide opportunities for California to achieve AB 32's goals in a manner that is more cost-effective, more fair and more sustainable than a traditional approach that sets specific emissions limits on sources and categories of sources. PG&E understands that further work will be done this year by the CPUC, Energy Commission and ARB on important design elements such as trading, banking, multi-year compliance periods and cost containment mechanisms. PG&E believes that the PD strikes the right balance in deciding that a cap and trade system is worth pursuing as a form of regulation under AB 32, but recognizing that important details of the design need to be considered and worked out.

### B. Role of Energy Efficiency and Renewable Energy

PG&E agrees with the PD that well-integrated regulatory programs in the electric and gas sector, such as energy efficiency and renewable energy programs and the SB 1368 emissions performance standard, can play a constructive role in helping achieve AB 32's GHG reduction goals. For example, customer energy efficiency programs have and can continue to deliver significant and cost-effective reductions in both energy use and GHG emissions, particularly if applied consistently across all electricity and gas utilities in the state, including both investor-owned and publicly-owned utilities, and if incentives are provided to both utilities and customers alike to achieve the reductions. Similarly, increases in renewable energy, if carefully evaluated and compared to other emissions reduction strategies across all sectors, can help reduce the GHG emissions intensity of the electricity delivered by load serving entities in the state. However, the PD also wisely recognizes that a precise numerical goal, set-aside or performance standard for any of these regulatory programs must not be adopted for its own sake, but must be evaluated as part of the overall "umbrella" of multi-sector GHG reduction strategies authorized by AB 32. In this regard, comprehensive economic modeling of all potential emissions reduction strategies and programs across all sectors is an essential prerequisite, not just across the electric and gas sectors. For this reason, PG&E recommends that the next phase of this proceeding include a well-integrated and coordinated effort by all three agencies, the CPUC, CEC and ARB, to review and evaluate the results of economic modeling of different emissions reduction strategies across *all* sectors, not just the electric and gas sectors. This should include not only energy efficiency, renewable energy, and energy procurement policies, but also clean transportation technologies, low-carbon transportation fuels, and "smart growth" land use and development policies that may deliver GHG reductions in both the transportation and utility sectors. Both the relative advantages and disadvantages of different GHG reduction strategies across different sectors should be compared, including, for example, the significant constraints on expanding renewable energy use, such as lack of adequate transmission, unavailability of some renewable technologies during peak periods, challenges in integration into the electric system, and need for breakthroughs and scaling up of new technologies. These constraints and practical and commercial limitations should be carefully evaluated, along with the GHG reduction potential and costs of various strategies.

### C. "Deliverer" Point of Regulation

PG&E supports the PD's recommendation that the "point of regulation" for the electric sector be the "deliverer," i.e. the selling party that owns or delivers power at the point where it is first delivered to the California transmission grid. PG&E agrees with the PD's conclusion that, of all the forms of regulation considered in this proceeding, (1) the "deliverer" point of regulation provides optimum environmental integrity because it covers imported power as well as in-state generation; (2) the "deliverer" point of regulation is most likely to be compatible with "source based" federal or regional GHG programs; and (3) the "deliverer" point of regulation improves the ability to track and report GHG emissions and would minimize the impact of AB 32 on wholesale electricity markets and the transmission grid. PG&E also agrees with the PD's conclusion that the "deliverer" point of regulation is lawful and does not conflict with other federal laws or programs, such as FERC regulation of wholesale electricity rates and services.

At the next stage of this proceeding and the Western Climate Initiative (WCI), PG&E looks forward to working with the CPUC, CEC, ARB, CalEPA, CAISO and policymakers and stakeholders from the Western region to develop a detailed implementation plan for the "deliverer" point of regulation under AB 32 and the efficient transition of that form of regulation to a regional or federal "source-based" program if and when adopted. PG&E is pleased that the WCI process is providing an opportunity for California and its partners across the Western US and Canada to share and trade practical tools and policies for implementing AB 32 in the context of a regional and national (and ultimately international) source-based cap and trade system that is commercially viable and practical.

### D. Distribution of Allowances under a Cap and Trade Program in the Electricity Sector

The PD examines two methods—an auction or free allocation based on a formula—for distributing allowances under a cap and trade system in the electric sector. The PD defers recommending which method, or mix of methods, should be used for allocating allowances. However, PG&E is heartened that the PD does recognize the benefits of ensuring that allowances are allocated under a method that provides the value of the allowances to the utility customers who bear the ultimate costs of compliance. We also agree that allocation of allowances for the benefit of LSEs' customers, followed by an auction of allowances to regulated entities, in which the revenues from the auction are used as directly as possible for the benefit of LSE customers, is superior to an allocation method in which the value of the allowances is not provided to customers. PG&E urges the CPUC and CEC to move forward expeditiously with further proceedings to address this critical issue for AB32 implementation.

**E. Policies for the Natural Gas Sector**

PG&E agrees with the basic conclusion of the PD that delivery and consumption of natural gas by residential and small commercial end-users be excluded from a cap and trade program under AB 32 at this time. Instead, the PD recommends that all entities that provide transportation, distribution and/or retail sales of natural gas to end-users, including investor-owned utilities, publicly-owned utilities and interstate pipelines, meet the same overall requirements for energy efficiency in the delivery and use of natural gas by residential and small commercial end-users.[1] PG&E agrees with this approach and the PD's recommendation that enhanced energy efficiency measures, including improved appliance standards and building codes, be considered as primary programmatic measures to achieve GHG reductions in the retail natural gas sector. To this end, PG&E looks forward to working with the CPUC, CEC, ARB and other interested parties on energy efficiency programs that can deliver additional GHG reductions in the natural gas sector.

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[1] Use of natural gas to generate electricity or in a facility that results in emissions of GHG of 25,000 or more metric tons per year would be regulated directly by the ARB.

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## IV. CONCLUSION

For the reasons stated above, PG&E commends the CPUC and CEC and other policymakers for developing a well-reasoned, fair and environmentally optimal framework for implementing AB 32 in the electric and gas sectors. PG&E supports the recommendations of the PD and urges their adoption by the CPUC, CEC and ARB. At the same time, PG&E recommends that the CPUC, CEC, and ARB move forward expeditiously to develop detailed recommendations on issues left undecided by the PD, particularly (1) economic modeling of the relative benefits and costs of various emissions reduction measures across different sectors, including not only energy efficiency and renewable energy measures, but also other emissions reduction measures in the transportation, fuel, industrial and governmental sectors; (2) methods for distributing emissions allowances that ensure that the value of such allowances is provided to the customers who pay the ultimate costs of the allowances; (3) detailed design of an emissions trading and offsets market, including cost mitigation and other market liquidity and transparency provisions; and (4) development of a seamless and

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efficient plan for transitioning California's AB 32 regulatory program to a regional or federal GHG program if and when such a program is adopted.

Respectfully Submitted,

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By: /s/
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