DOCKET 07-OIIP-01
CALIFORNIA ENERGY COMMISSION
REPLY 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 reply comments on the Proposed Decision (PD) on greenhouse gas (GHG) regulatory strategies under AB 32.

II. PARTIES RECOMMENDING THAT SMALL NATURAL GAS USERS BE INCLUDED IN A CAP AND TRADE SYSTEM HAVE IGNORED THE EVIDENCE THAT OPPORTUNITIES FOR ADDITIONAL GHG REDUCTIONS UNDER SUCH A SYSTEM ARE LIMITED AT THIS TIME

Several parties continue to urge that small users of natural gas be included within a cap and trade system.[1/] These parties argue that a cap and trade system should be as broad as possible and that excluding natural gas would exclude a large source of GHGs from the incentives for innovation and efficiency provided by a cap and trade system.

As the PD precisely and logically explains, there are significantly fewer options at this time to reduce GHG emissions in the small customer segment of the natural gas sector. This is because, unlike the electricity sector, there is no reasonably available low-carbon alternative source of natural gas to heat residential and commercial homes and buildings, the primary sources of GHGs in the natural gas sector. Thus, at least in

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1/ LADWP at 6- 7; SCPPA at 13; NRDC/UCS at 2- 7; ED at 4- 5; SCE at 6- 8.

the near term, consumers and the natural gas utilities that serve them cannot substantially reduce GHG emissions by choosing an alternative source of natural gas. As a result, energy efficiency programs provide the only reliable near-term options available for reducing GHG emissions in the natural gas sector.[2/] PG&E supports future consideration of including the small natural gas customer segment in a broad based cap and trade program, but only after careful evaluation.

III. PROPOSALS FOR "ENTITY SPECIFIC" DIRECT EMISSIONS CONTROLS IN LIEU OF A MULTI-SECTOR CAP AND TRADE SYSTEM ARE UNWORKABLE

Some parties argue against the PD's endorsement of a multi-sector cap and trade program. They recommend instead that individual, "entity-specific" direct emissions limits be applied on a utility-by-utility basis to retail electric utilities, or that individual entities be permitted to "opt out" of a cap and trade program.[3/]

These arguments would minimize emissions reductions and set an undesirable precedent of allowing individual emissions limits for individual utilities. As the PD and most parties in this proceeding recognize, a well designed cap and trade program can provide significant benefits, by incenting flexible, sustained and economically efficient GHG emissions reductions. Proposals by parties for special "command and control" regulations in lieu of cap and trade, such as "entity-specific" emissions limits or "opt-out rights," would not only forego or severely constrain the benefits of cap and trade incentives, they would open the door to higher emissions limits for some individual utilities, to the detriment of other utilities and their customers who already have invested

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2/ PD, at 107.

3/ LADWP at 4; SCPPA at 1, 12; CMUA at 2- 3.

in lower-emitting resources or who would like incentives to do so in the future.

The intent of AB 32 is for California to achieve meaningful, sustained and permanent reductions in GHG emissions from "sources" and "categories of sources" of emissions.[4/] A well-designed cap and trade program can achieve these emissions reductions more efficiently and economically than "command and control" emissions limits. The CPUC and Energy Commission should reject unsupported and *per se* attacks on cap and trade programs and instead move forward with implementing a regulatory program that fulfills the promise of cap and trade.

IV. NUMERICAL TARGETS FOR RENEWABLE ENERGY ARE NOT SUPPORTED BY THE RECORD AND WOULD DEFEAT THE PURPOSES OF AB 32

Some parties urge the CPUC and Energy Commission to endorse a numerical, mandatory target for increasing renewable energy in California as part of AB 32.[5/] Other parties, such as DRA, urge caution in setting numerical goals for renewables, and generally support the PD's avoidance of such arbitrary goals.[6/] PG&E urges the CPUC and Energy Commission to continue to resist setting a mandatory, numerical goal for renewables under AB 32. Comments by many parties in the economic modeling phase of this proceeding, as well as recent testimony before the Legislature, have raised significant "red flags" regarding the efficacy and customer cost impact of setting numerical targets for additional renewables in order to achieve AB 32's GHG reduction

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4/ Health and Safety Code sections 38505(i); 38561(a) and (e). See also Health and Safety Code sections 38562(b)(1), (3) and (9) require that GHG reduction measures be "equitable," provide credit for "early voluntary reductions," and "consider the significance of the contribution of each source or category of sources to statewide emissions of greenhouse gases." See also Health and Safety Code section 38561.

5/ CEERT at 2- 6; NRDC/UCS at 2, 11- 13.

6/ DRA at 2- 7.

goals.[7/] Moreover, setting particular targets for one type of GHG reduction measure—such as additional renewables—without at the same time comparing the feasibility and cost effectiveness of that measure with other measures across all sectors of the economy—such as expanded energy efficiency programs in the building and transportation sectors—is not only unwise but contrary to the intent of AB 32 that GHG measures be evaluated collectively across all sectors.[8/] Finally, PG&E agrees with DRA that setting numerical targets for renewables outside of AB 32 and greenhouse gas emissions programs, e.g. expanded Renewable Procurement Standards, ignores the need for ongoing integration between the potentially conflicting goals of the RPS and AB 32 programs.[9/]

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7/ See "Reply Comments of PG&E on Economic Modeling Issues under AB 32," January 18, 2008; "California's Renewables Portfolio Standard - Progress and Challenges," Hearing before California Senate Energy, Utilities & Communications Committee, February 26, 2008, http://www.senate.ca.gov/ftp/SEN/COMMITTEE/STANDING/ENERGY/_home/02-26-08agenda.htm.

8/ Health and Safety Code 38560, 38561(d), 38562(b).

9/ DRA at 2- 6.

V. CONCLUSION

For the reasons stated above, PG&E supports the PD and urges its adoption.[10/]

Respectfully Submitted,

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By: /s/

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10/ PG&E notes in passing that some parties interpreted the PD as endorsing an auction approach for distributing emissions allowances, compared to any other approach, such as "free" allocation. These comments are premature. In fact, the PD describes the benefits of an auction approach, particularly the principle of ensuring that the value of emissions allowances are allocated for the benefit of utility customers, but then defers deciding the details of whether an auction approach should be used in whole or in part for distributing allowances.