

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

DOCKET 07-OIIP-1	
DATE	JUN 0 2 2008
RECD.	JUN 0 3 2008

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)

_____)
Also filed at the California Energy Commission)
_____)

CEC Docket 07-OIIP-01

**Opening Comments
of the California Cogeneration Council**

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On Behalf of
CALIFORNIA COGENERATION COUNCIL

June 2, 2008

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OPENING COMMENTS OF THE CALIFORNIA COGENERATION COUNCIL

Pursuant to the procedural schedule and scope set forth in the Rulings dated April 16, May 1, May 6, May 13, and May 20, 2008 in the above-captioned proceeding, the California Cogeneration Council (CCC) respectfully submits these opening comments on issues concerning the scope and structure of California's future regulation of greenhouse gas (GHG) emissions from the energy sector, including the central issue of how to allocate GHG emission allowances. The CCC is also filing these dockets in the companion proceeding before the California Energy Commission (CEC), CEC Docket 07-OIIP-01.

The CCC is an *ad hoc* association of natural gas-fired cogenerators located throughout California, in the service territories of all three of California's major investor-owned electric utilities (IOUs) - Pacific Gas & Electric Company (PG&E), Southern California Edison (Edison), and San Diego Gas & Electric (SDG&E). CCC member facilities are certified as qualifying facilities (QFs) pursuant to the Public Utility Regulatory Policies Act of 1978 (PURPA). In aggregate, CCC members' 31 different cogeneration projects in California generate about 1,300 megawatts (MWs), most of which are sold to the California IOUs. The CCC represents a

significant share of the distributed combined heat and power (CHP) projects now operating in California.

In aggregate, the CCC's member projects have produced significant reductions in California's emissions of greenhouse gases since the 1980s, and continue to do so today. Based on a representative survey of its member's facilities, the CCC estimates that its CHP projects today produce approximately 10% fewer GHG emissions than would result from the separate production of their electrical and useful thermal output, even though the CCC members' facilities generally were built 20 years ago and the efficiency of California's fleet of fossil-fueled generators has increased over those two decades. The CCC members surveyed have an average GHG intensity of about 0.4 tonnes CO₂ per MWh, which is more than 20% lower than the average GHG intensity of California's existing portfolio of fossil-fueled generation.¹

Given the efficiency of California's CHP resources, it is important that the state's GHG policies continue to encourage the operation of these beneficial resources. Moreover, the commercial, industrial, and institutional customers that CCC members serve are integral to the California economy, and CHP is a vital tool to help these customers to manage both their energy costs and their GHG emissions. The CCC also encourages the Commission to use its GHG policies to encourage further investment in CHP in California – both the repowering of existing facilities and the development of new CHP capacity. Many state agencies and task forces have concluded that additional CHP capacity can make a significant contribution to meeting the ambitious goals of AB 32:

- CalEPA's Economic and Technical Advancement Advisory Committee (ETAAC) studied a wide range of means to encourage GHG emission reductions. The ETAAC Final Report, issued February 11, 2008, concluded that each 1,000 MW of new CHP capacity could provide 0.6 to 1.5 millions tonnes of GHG reductions annually.
- The California Energy Commission (CEC) has assessed the potential for additional CHP

¹ Based on the 2008 GHG intensity of fossil generation in California (0.5 tonnes CO₂ per MWh) modeled in the E3 GHG Calculator.

development in California, and concluded that the state could develop an additional 2,000 to 7,300 MW of CHP capacity, with the upper end of the range possible with supportive state policies.² This could reduce GHG emissions by as much as 9 million tonnes per year.

- The CEC's 2007 *Integrated Energy Policy Report*, the state's principal energy policy document, discussed the importance of CHP's contribution to reducing GHG emissions:

*The importance of keeping this distributed generation capacity in the system is elevated by the state's need to reduce greenhouse gas emissions as part of AB 32. Combined heat and power in particular offers low greenhouse gas emissions rates for electricity generation taking advantage of fuel that is already being used for other purposes. The systems use waste heat for either process or electricity generation needs which results in very efficient use of fossil fuels. Large combined heat and power units appear to offer the greatest fuel efficiency of available distributed generation technologies. Because combined heat and power systems are located close to the load, transmission and distribution line losses are minimized, further reducing greenhouse gas impacts.*³

- California's current *Energy Action Plan*, adopted jointly by this Commission and the CEC, places new distributed CHP capacity in the second level of the state's "loading order" of preferred resources, on a par with renewable resources.⁴

The CCC has monitored prior phases of this proceeding closely, and intends to participate actively in the development of the recommendations that the two Commissions will present to the California Air Resources Board (CARB) for the scope and structure of GHG regulations in California's energy sector. In particular, the CCC commends the Commissions for the recognition in D. 08-03-018 of the benefits of CHP in reducing GHG emissions and the two Commissions' determination that California's GHG regulations should not have "unintended negative consequences" for the state's CHP resources:

² Darrow, K., McNulty, S., Price, S., *Assessment of California CHP Market and Policy Options for Increased Penetration* (2005 PIER Collaborative Report, CEC-500-2005-173), at vii.

³ CEC, 2007 *IEPR*, at 211.

⁴ Energy Action Plan II (October 2005), at 2. See http://docs.cpuc.ca.gov/word_pdf/REPORT/51604.pdf.

[W]e plan to consider further the treatment of combined heat and power (CHP) facilities under this policy framework. We want to avoid unintended negative consequences for CHP, which may be a valuable source of additional GHG emissions reductions in California. Therefore, we intend to consider further the treatment of emissions from CHP facilities in the next portion of this proceeding...⁵

The CCC also appreciates the background on California's CHP resources that is presented in the *Joint CPUC / CEC Staff Paper on GHG Regulation for CHP (CHP Staff Paper)*, issued on May 1, 2008. The *CHP Staff Paper* includes a detailed list of questions concerning the treatment of CHP in California's GHG regulations, and the CCC's comments below focus on responding to those questions. The CCC does not address all of the broader issues on the allocation of GHG allowances that are presented in the outline that the Commission asked parties to follow in the May 20 Ruling.

V. TREATMENT OF CHP

A. Detailed Proposal (Staff Question 1)

The CCC recommends the creation of a stand-alone CHP sector. All of the GHG emissions from a CHP project, for all of its energy outputs (electricity for the grid, electricity for on-site use, and thermal energy for on-site consumption), should be regulated in this sector. The CHP projects is the deliverer, and should be the point of regulation, for all of these energy products. The CHP project is also the retail provider for on-site electricity and thermal energy. The CCC believes that a single CHP sector would simplify and clarify the regulation of GHG emissions from CHP, and would ensure that the GHG policies adopted for the sector appropriately consider the efficiency and unique attributes of CHP. The CHP sector should be included in a multi-sector cap-and-trade program that also includes the electric sector.

GHG emission allowances should be allocated to CHP projects based on historical

⁵ D. 08-03-018, at 10.

emissions in a baseline year. The allocation should begin in the first year with allowances covering 100% of the historical baseline emissions, then the percentage allocation should decrease each year by the same percentage change as the change in the overall multi-sector cap. This allocation would recognize that efficient CHP projects are “very early action measures” that have been reducing GHG emissions in California for the past 25 years, and continue to do so today. This allocation would ensure that these efficient resources continue to produce at historical levels, and would provide a measured incentive for existing CHP to repower or otherwise to improve their efficiency.

Furthermore, because CHP is more efficient than the average fossil generator in California, the use for CHP of an allocation based on historical emissions will make more allowances available to other generators in the electric sector, than if an output-based allocation is used for CHP. The CCC fully recognizes that the staff of the two Commissions has identified several problems with the use of a “pure” historical allocation in the broader electric sector – the potential for generators to receive a windfall from market-based electric prices and the inability of an historical allocation to accommodate new entrants. These concerns do not apply to the CHP sector. First, the Commission regulates the price for the power sold by CHP units to the utilities. Second, there are available means to ensure that new CHP projects receive allowances, such as the “double benchmarking” concept that the Cogeneration Association of California (CAC) has proposed.

The CCC explains its proposal in more detail below.

B. Regulation of CHP GHG Emissions

1. GHG emissions from CHP systems should be regulated in a distinct CHP sector. (Staff Questions 2 and 3)

The CCC’s primary recommendation is the creation of a distinct CHP sector, separate

from the electric sector, for the purpose of setting GHG policy and regulations applicable to CHP, including the allocation of GHG allowances to CHP in a multi-sector cap-and-trade program. All of a CHP project's GHG emissions, for both its electrical and thermal outputs, would be regulated as part of the CHP sector. The CCC understands that the CAC also has recommended, and will recommend again in its comments today, the creation of a distinct CHP sector. The CCC supports the CAC proposal for a separate CHP sector, although the CCC may differ from CAC on the details of the policies that should apply to the CHP sector. The CCC sees the following significant advantages of a stand-alone CHP sector:

- **Policies tailored to sustaining existing CHP and encouraging new CHP.** If CHP is regulated in a distinct sector, the policies applicable to that sector can be tailored such that existing CHP resources are not harmed, and new CHP installations are supported. This might not be possible if CHP electric emissions are regulated as part of the electric sector. As the Commission is well aware – and will see in the other comments filed today – the debate over allowance allocation in the electric sector involves matters of economics and equity among the diverse utilities and utility customers in California that are likely to override policy considerations related to CHP. This ability to design policies that are focused specifically on CHP is the most important reason for placing CHP in a distinct sector.
- **Simplicity and ease of administration.** A CHP project's GHG emissions result from the dual production of electricity and useful thermal energy. Therefore, if CHP is included in the electric sector, its emissions must be apportioned between its electrical and thermal outputs. There are several possible methods for making this division, and although the CARB has adopted a reporting procedure for making this split, this protocol may be a source of controversy in the future. Furthermore, the separation of electrical and thermal emissions may require significant resources for the CHP facility to report and for the CARB or the local air district to verify, particularly in facilities where the operations of the CHP unit and the industrial host are closely integrated. It would be far

simpler and much easier to administer and verify if the CHP facility simply reported the GHG emissions from the combustion of its input natural gas.

CHP projects typically serve on-site electric loads and export excess power to the grid. Again, GHG emissions must be apportioned between on-site and export loads. Although this division is generally straightforward, it also can be eliminated if all CHP emissions are treated in a single sector.

- **Certainty of regulation.** Dividing CHP emissions between the electric sector and another sector would subject CHP projects to GHG regulation in multiple sectors. This certainly would result in additional administrative burdens for CHP operators, compared to regulation of all of a CHP project's emissions in a single sector. It is possible that regulation in multiple sectors may present CHP projects with unintended incentives to favor one type of output over another. For example, if allowances are allocated administratively in the electric sector but auctioned in the industrial sector, a CHP project might have an incentive to re-configure its facility to emphasize electric production over thermal output, reducing the overall efficiency of the plant and increasing GHG emissions. Although the CPUC and the CEC are actively developing a structure and scope for the regulation of the electric sector, much less has been accomplished in the sectors that might apply to the emissions related to a CHP unit's thermal output.⁶ The CCC would prefer the certainty of a joint CPUC / CEC recommendation to CARB supporting the formation of a CHP sector that would cover all of the GHG emissions from CHP, to the uncertainty of partial regulation in the electric sector plus unknown requirements in a different sector.
- **Maximizes the opportunity for sound economic solutions for the enterprises that are supported by CHP.** CHP is, in many situations, fully integrated with the economic

⁶ There has been some indication from CARB that emissions from thermal production in the petroleum industry may fall under the cap-and-trade program.

model of the business it supports. To do harm to CHP will have a direct and negative impact on these businesses. By simplifying and clarifying the GHG regulation of CHP, a separate CHP sector will create the greatest opportunity for the creation and application of the most advantageous economic solutions for the businesses as a whole.

- **European experience.** The European Union has the world's largest functioning market in GHG emission allowances, and is in the second phase of its market design. As CAC has discussed in past comments in this docket,⁷ a number of EU member states, including the United Kingdom, have decided that CHP should be regulated as a separate sector. The CCC recommends that the two Commissions look closely at this experience.

2. The CHP sector should be included in a multi-sector cap-and-trade program. (Staff Question 9)

The CCC supports the inclusion of the CHP sector under a multi-sector cap-and-trade program that also includes, at a minimum, the electric sector. The CCC believes that tradeable emission allowances are essential if California is to reduce GHG emissions with the least cost to the California economy. Like other electric deliverers, CHP projects need to have the ability to rationalize their allocation of allowances. If a CHP sector is included in a multi-sector cap-and-trade program, the initial emissions cap should be calculated based on the full GHG emissions inventory from CHP facilities at the outset of the AB 32 regulatory program.

If a CHP sector is adopted, the CCC would strongly oppose any proposal (1) to institute a cap that applies just to the CHP sector, (2) to limit the ability of CHP projects to trade allowances with other sectors, or (3) to allocate allowances to a CHP unit based on the project's relative efficiency compared only to other CHP units. Fortunately, the CCC is not aware of any such proposal, which would pit one CHP project against another. Less-efficient CHP (generally, units

⁷ See, for example, the CAC Comments in this docket, dated February 28, 2008, at page 6.

with a lower percentage of thermal output) would be forced to purchase allowances only from more efficient CHP (units with higher thermal output). This would represent an undue windfall for large CHP units that happen to have been built to serve hosts with large thermal needs, such as refineries. Most of the CHP capacity in the state are QFs, are required to meet the FERC's QF efficiency standards for CHP, and thus must achieve a reasonable baseline of efficiency. If the Commission's GHG allowance allocation policies for CHP are based on GHG emissions intensity (i.e. on tonnes of CO₂ per MWh produced), they should be based on the efficiency of CHP compared to the overall fleet of fossil generation in the state, not compared to other CHP units.

3. The CHP project should be the deliverer, and the point of regulation, for all of its energy products. (Staff Questions 10 and 11)

For all of the energy products from a CHP unit (electricity for the grid, electricity for on-site use, and thermal energy for on-site consumption), the CHP owner is the entity that will deliver the product to the grid or to the on-site point of final use. As a result, the CHP project clearly should be the deliverer, and thus the point of regulation under D. 08-03-018, for all of its energy products – power to the grid, power supplied on-site, and thermal usage on-site. The stand-alone CHP sector would include all of the GHG emissions from a CHP facility. As a result, the creation of a distinct sector for in-state CHP systems provides a clear answer to the staff's questions concerning the point of regulation for all of the energy products produced by a CHP unit.

4. The CHP project is the retailer provider for the energy products that it supplies to on-site loads.

The CCC also strongly believes that, for the energy products that the CHP unit supplies on-site, the CHP owner is the retail provider, as that term has been used in the debate on the allocation of allowances. Thus, for example, if the Commission determines that revenues from an auction of allowances should be returned to retail providers, CHP owners should be included in that distribution of auction proceeds, to the extent that they provide electricity and thermal

energy on-site. The *CHP Staff Paper* concurs with the CCC's view on this point:

Depending on the method of allocation, the cost impact of the cap-and-trade system can be cushioned at either the production or consumption side of an electricity transaction. ... [A]ny funds made available for rate relief for electricity consumed from the grid should be available at the same rate for onsite consumption from CHP facilities. Differential treatment of either consumption or production could have the effect of discouraging (or incentivizing) CHP.

5. Treatment of out-of-state CHP (Staff Question 4)

The CCC expects that this issue is largely academic, as the CCC is aware of only one out-of-state CHP project that is under contract to a California utility.⁸ The CCC believes that, consistent with other out-of-state sources, the deliverer of out-of-state CHP power to the California grid should be the point of regulation and that only those emissions associated with this electricity should be regulated under AB 32. The CCC presumes that the state in which the out-of-California CHP plant is located will regulate the plant's emissions to supply on-site energy uses.

6. Treatment of CHP based on unit capacity size (Staff Question 5)

The CARB presently requires CHP projects with a unit capacity of 1 MW or larger and GHG emissions of 2,500 tons per year to report their GHG emissions. The CCC supports the use of this threshold to determine which CHP projects should be included in the CHP sector.

7. The CHP sector should be allocated allowances based on historical emissions in a base year. (Staff Questions 13 and 14)

Existing CHP projects in California have provided the state with substantial reductions in GHG emissions since the 1980s, and in the future will continue to contribute significantly to shrinking the state's carbon footprint. The societal benefits of lower GHG emissions from CHP result from the on-site, dual production of both electrical and thermal energy with a higher

⁸ The Yuma Cogeneration facility in Yuma, Arizona, sells power to SDG&E under a QF contract.

efficiency than if the two products were produced separately. However, as recognized in the *CHP Staff Paper*, this results in an increase in the on-site emissions of GHGs, compared to the case in which the site simply produces thermal energy for the host and the same amount of power is produced at marginal generating units on the grid.⁹ The allocation of GHG allowances to the CHP sector should avoid penalizing CHP as a result of this increase in on-site emissions, consistent with the Commission's stated intent to "avoid unintended negative consequences for CHP."¹⁰ Accordingly, the chosen allocation policy for CHP should not provide a disincentive for the continued operation of CHP facilities, and should encourage new CHP development. The *Joint CPUC / CEC Staff Paper on Options for Allocation of GHG Allowances in the Electricity Sector (Staff Paper on Allocation Policies)*, issued on April 16, 2008, concurs with this perspective:

Regardless of the sectoral classification of CHP recommended in a cap-and-trade program design, allowances should be allocated in a manner that avoids inadvertently deterring either the continued operation of or new investment in CHP solely because of the allocation method chosen.¹¹

The CCC submits that the best means to avoid deterring the continued operation of CHP is to allocate the allowances for the CHP sector on the basis of historical emissions in a baseline year. Most CHP units operate at high load factors and do not vary significantly in their output from year to year. Thus, the first-year allocation of GHG allowances to the CHP sector should be based on 100% of each existing CHP project's GHG emissions in a base year. This allocation can be expected to cover the existing CHP project's emissions in that initial year.

The CCC anticipates that the multi-sector cap will decrease each year, in order to reach the intended emission reduction goal for the sectors covered by the cap, as shown in Figure 1 of the *Staff Paper on Allocation Policies*. The allocation of allowances to CHP based on historical

⁹ *CHP Staff Paper*, at 9-10. CAC has made this point repeatedly in its filings in this docket, as well.

¹⁰ D. 08-03-018, at 10.

¹¹ *Staff Paper on Allocation Policies*, at 16.

emissions should decrease each year by the same percentage reduction as the overall cap. Thus, for example, if the cap is reduced by 4% from year one to year two, the allocation to CHP of allowances based on historical emissions would decline by 4%, from 100% of the historical baseline in the first year to 96% of the baseline in the second year. This would provide a measured increase each year in a CHP project's exposure to market-based GHG allowance prices. The CHP project would receive a market signal on the margin to reduce its GHG emissions, for example, through efficiency improvements. Obviously, if a CHP project could repower, and thus reduce its GHG emissions significantly compared to its historical baseline, the project might generate a surplus of allowances for several years, allowances whose value would help to justify and support the repowering project. Alternatively, repowering could allow a project to increase its electric output, yet improve its efficiency such that it would remain within its historical allocation of allowances.

Under the CCC's proposal, the CHP sector would bear the same responsibility as other sectors under the cap-and-trade mechanism for meeting the increasingly stringent cap on GHG emissions. A CHP project that intends to operate as it has in the past could purchase, beginning in the second year of the program, the remaining 4% of its needed allowances in a multi-sector auction or on the open market. This would provide CHP projects with a marginal price signal concerning the value of reducing their GHG emissions, if that is feasible, as well as with experience in the market for GHG allowances. The CCC submits that this allocation would recognize the past investments that CHP projects have made in reducing GHG emissions, by ensuring that these efficient resources continue to produce at historical levels.

The CCC trusts that the Commission will recognize that the allocation of allowances to a relatively small and homogeneous sector such as CHP can and should be distinguished from the allocation policy for the much larger and more diverse electric sector. The CCC has recommended above a "pure" allocation of allowances to CHP based on historical emissions. The *Staff Paper on Allocation Policies* identifies two major problems with using a "pure" allocation based on historical emissions in the broader electric sector. One difficulty is the

potential for windfall profits for independent power producers (IPPs), if market prices reflect allowance costs but IPPs receive free allowances based on their historical output. This is not necessarily an issue for CHP, however, because the Commission regulates the price that the utilities pay for generation from most CHP plants in the state. As a result, the Commission has the ability to determine the extent to which GHG costs should be reflected in the prices paid for the generation from CHP projects. The second problem is how to accommodate new entrants; this issue is discussed in the next section.

8. A CHP sector can accommodate new entrants using a “double benchmarking” standard.

The *Staff Paper on Allocation Policies* faults allocations based on historical emissions for failing to provide allowances for new entrants.¹² The CCC believes that this will not be a significant problem with a CHP sector, because most new CHP entrants are likely to transfer GHG emissions from other sectors into the CHP sector. For example, an existing industrial facility with GHG emissions in the industrial sector may decide to install CHP. The CHP unit will reduce emissions in the electric sector, due to the on-site production of power at an effective heat rate less than the marginal generator on the system, and in the industrial sector, as a result of the industrial facility shifting the production of useful thermal energy to the CHP unit. As a result of the efficiency of CHP, the new emissions in the CHP sector from the entrant will be less than the electric and industrial emissions displaced. To ensure that these efficiency benefits are realized, the CCC supports benchmarks for the efficiency of new CHP to ensure that overall GHG emissions drop when new CHP is installed. In other words, the benchmarks will ensure that the new CHP facility more than offsets its GHG emissions. For example, the Commission could adopt the “double benchmark” of electric production from a combined-cycle gas turbine with a heat rate of 7,000 Btu/kWh and thermal production in a high-efficiency boiler with an

¹² *Staff Paper on Allocation Policies*, at 3 and 22.

efficiency of 85%.¹³ The GHG allowances allocated to the new CHP entrant can be based on these benchmarks. To the extent that a new entrant exceeds these benchmarks, the extra GHG allowances that the entrant earns would provide an incentive to install high-efficiency CHP; conversely, a new CHP project with higher GHG emissions than the benchmark would be required to purchase allowances for the additional emissions. The CCC believes that this proposal will accommodate most new large CHP projects without difficulty. The Commission may need to develop separate benchmarks for small CHP units.

The case that requires additional comment is greenfield CHP, where a new industrial facility is built using CHP. In this case, there are no existing industrial emissions to be displaced by the CHP unit. Instead, the new CHP project would have to purchase allowances to cover the GHG emissions associated with its new thermal energy usage, based on the benchmark of an 85% boiler efficiency. The project would receive allowances for its electrical production, using the electric benchmark of a combined-cycle gas turbine with a heat rate of 7,000 Btu/kWh.

In essence, the CCC proposes a double benchmark standard for new CHP entrants that would require new facilities, at a minimum, to offset completely their GHG emissions, based on a comparison to producing the same electrical and thermal outputs in the most efficient, stand-alone facilities. This is no different than the current requirement that new industrial or electric generation plants must offset completely their emissions of criteria air pollutants such as NO_x.

- 9. If CHP is included in the electric sector, the Commission should allocate allowances to CHP based on the same allocation method recommended above. If allowances are allocated to CHP on the same basis as to other generators, the CCC favors the staff's preferred output-based allocation using California fossil generation. (Staff Question 12)**

¹³ Prior comments in this docket from the CAC have proposed such a “double benchmarking” strategy. See page 19 of the CAC Comments on Allowance Allocation Issues in R. 06-04-009, filed October 31, 2008.

The *CHP Staff Paper* asks parties to discuss the allocation of allowances to CHP, if CHP is included in the electric sector. As set forth above, the CCC's recommendation is to establish a distinct CHP sector. However, if CHP projects are included in the electric sector, the CCC has several recommendations. First, only the CHP emissions associated with a project's electric output (both power sold to the grid and power supplied for on-site use) should be included in the electric sector.¹⁴ CARB has approved reporting regulations to separate a CHP project's electric-related emissions from its thermal-related emissions. The GHG emissions associated with a CHP unit's thermal output should be regulated in the CHP project's "otherwise applicable" sector.

Second, if CHP is included in the electric sector, the CCC continues to recommend that allowances should be allocated to CHP on the basis of historical emissions, as described above, even if this differs from the allocation to the remainder of the electric sector. As CHP is much more efficient than the average fossil generator in California, this allocation actually will make more allowances available to other generators than using the staff's recommended output-based allocation. If the Commission decides that the allocation of allowances to CHP should use the same method as the rest of the electric sector, then the CCC favors the staff's preferred output-based allocation that uses the GHG intensity of California fossil generation.

Finally, the CCC concurs with the prior comments of the CAC and other parties that California should proceed slowly to implement an auction-based allocation. Given the amount of money involved, the auction needs to be designed carefully, and tested on a relatively small scale, before the state should rely on an auction to allocate the majority of allowances. The CCC generally supports the staff's proposals, in its preferred emissions- and output-based proposals, to phase in the use of auctions over at least an eight-year period. The staff correctly recognizes that the gradual phase-in of auction mechanisms will allow time for the carbon market to mature, for the state to develop procedures to oversee the new market, and for market participants to

¹⁴ As noted above, GHG emissions can be apportioned in a straightforward way between on-site and export loads, on the basis of MWh delivered to each.

transition to lower-carbon resource portfolios before a significant share of allowances must be purchased.¹⁵

C. CHP as an emissions reduction measure (Staff Questions 16 - 21)

The “double-benchmarking” proposal set forth above for new CHP projects would establish CHP as a significant emission reduction measure. The double benchmark would ensure that new CHP projects achieve an efficiency that will result in a societal reduction in emissions. As noted in the introduction to these comments, there remains significant potential for additional CHP development in California. If a new CHP project meets the double-benchmark standard, it should be allocated GHG allowances based on the double benchmark. To the extent that new projects exceed the standard, the excess allowances will represent an incentive to encourage the installation of incremental CHP.

The CCC appreciates the Commission’s attention to these comments.

Respectfully submitted,

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On Behalf of
THE CALIFORNIA COGENERATION COUNCIL

June 2, 2006

¹⁵ *Staff Paper on Allocation Policies*, at 23-24, and 32-33.

CERTIFICATE OF SERVICE

I hereby certify that I have this day caused to be served a copy of the foregoing document, **OPENING COMMENTS OF THE CALIFORNIA COGENERATION COUNCIL**, by Electronic Mail where possible and First-Class Mail where not, on all known parties to R. 06-04-009, named on the service list attached to the original certificate of this document pursuant to the Commission's Rules of Practice and Procedure.

I declare under penalty of perjury that the foregoing is true and correct.

Executed at Berkeley, California, Monday, June 2, 2008.

/s/ Christa Goldblatt

Christa Goldblatt

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