STATE OF CALIFORNIA

CALIFORNIA ENERGY COMMISSION

CALIFORNIA PUBLIC UTILITIES COMMISSION

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Reducing Greenhouse Gas Emission Recommendations Adopted

Sacramento –The California Energy Commission and the California Public Utilities Commission adopted the final opinion on strategies to help reduce greenhouse gas (GHG) emissions and meet AB 32 goals. The *Final Opinion on Greenhouse Gas Regulatory Strategies*, prepared jointly by Chairman Jackalyne Pfannenstiel and Commissioner Jeffrey Byron (California Energy Commission's AB 32 Implementation Committee) and President Michael R. Peevey (California Public Utilities Commission) provides recommendations and outlines a variety of options for the Air Resources Board (ARB) to consider in deciding how to design a program to achieve the greenhouse gas emission targets in the electricity sector.

"This decision strengthens the state's commitment to pursue aggressive regulatory measures that maximize energy efficiency and expand renewable energy development in the state," said Chairman Jackalyne Pfannenstiel. "Energy efficiency and renewable resources are essential to reducing greenhouse gas emissions and must be the foundation of any successful program for mitigating climate change."

CPUC President Michael R. Peevey, in acknowledging the two staffs, said, "I applaud the hard work of the CPUC and Energy Commission staff in working together on these joint recommendations for the Air Resources Board. This is an important step toward meeting the goals of AB 32 and bettering the environment of California and beyond."

In addition to a strategy of mandatory emission reduction measures based on energy efficiency and renewable energy, the *Final Opinion* offers recommendations for structuring a market-based cap-and trade program to meet the goals set out in the ARB's *Climate Change Scoping Plan*. The ARB's Scoping Plan expects that the electricity industry will contribute at least 40 percent of the total greenhouse gas reductions from direct mandatory approaches and measures. With the addition of a potential cap-and-trade program, the electricity sector may be called upon to reduce its emissions even more.

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“Cap-and-trade theory has a compelling logic – putting a price on something we want less of makes sense.” commented Commissioner Karen Douglas. “Applying this theory to the real world, however, is challenging. It is important to have good and current information to base decisions. This process must continue to be open and flexible to allow for changes to recommendations as our information improves.”

Development of this *Final Opinion* has been an open public process beginning with a joint Commission symposium in April 2007 that addressed greenhouse gas emissions and various types of cap-and-trade markets. A number of workshops and more than 65 different stakeholder groups have helped craft the recommendations.

Commissioner Jeffrey Byron gave accolades to the invaluable contributions made by the stakeholders. “We depend on stakeholders to keep our process informed and contribute innovative solutions. We realize this proceeding has stretched your resources and you've participated at great personal and organizational sacrifice. But, we ask you to "stay at the table" and continue to work with us as we chart unexplored waters and design an effective GHG reduction program that will become our collective legacy.”

To achieve these ambitious cuts in GHG emissions, the *Final Opinion* offers recommendations and options in energy efficiency and renewable resources and combined heat and power (CHP) and describes a complementary cap-and-trade program. Specifically, the *Final Opinion:*

• Reaffirms a commitment to pursue all cost-effective energy efficiency options in the state including more stringent building and appliance standards and advocates expanding renewable energy use to at least 33 percent for all retail providers.

• Concludes that the impacts of a cap-and-trade program will vary depending on service territory and on the design of the ultimate program to be developed by the ARB. A variety of illustrative scenarios developed by the Commission staff and consultants indicates that, unrelated to AB 32 compliance, utility rates are likely to rise through 2020. Under some scenarios related to AB 32 policies, however, utility costs may be reduced compared with business as usual, after accounting for significant adoption of energy efficiency by consumers.

• Recognizes the value of higher energy efficiency provided by CHP projects and recommends that for larger installations, the GHG emissions for electricity consumed on site and/or delivered to the grid be included in the cap-and-trade program and receive allowance allocations comparable to other electricity providers and consumers.

• Identifies auctioning as the preferred ultimate method to distribute emission allowances. Starting in 2012, 80 percent of the emission permits or allowances are recommended to be distributed for free to the electricity deliverers and 20 percent would be auctioned. The auctioned proportion would increase each year to 100 percent auction by 2016.

• Recommends that free allowances be allocated to “deliverers” based on energy output and electricity fuel source. Allowances would be granted to the electricity retail providers on behalf of their customers with the allowances offered for sale in a centralized auction undertaken by ARB or its designated representative. These allowance allocations will change over time based on historical portfolio emissions to a sales basis by 2020, to allow transition time for retail providers with emission intensive portfolios.

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• Describes that auction revenues are to be used for AB 32-related purposes and all revenues auctioned by the retail providers be used to support investments in renewables, efficiency, new energy technology, infrastructure, and customer bill relief.

• When considering market structure, requires that the key market design feature is maintaining environmental integrity. Market structure should encourage open and transparent allowance trading with many participants, unlimited banking of allowances and offsets, and offsets that must meet AB 32 requirements to be real and permanent. Offsets should not be limited geographically. If a multi-sector regional cap-and-trade is developed, a three-year compliance period should be established to allow time to implement emission reduction measures and to account for hydrologic conditions that can significantly impact the electricity sector.

Both Commissions concluded that more analysis is required in numerous areas and committed to working with the ARB to complete a rigorous analytic investigation of the impacts of the recommendations. If the results of this further work indicate, the recommendations to the ARB could be revised.

Finally, though much work remains for ARB and the Western Climate Initiative to design a multi-sector regional cap-and-trade program, the Commissions are prepared to immediately implement the regulatory process envisioned in this opinion.

The *Final Opinion on Greenhouse Regulatory Strategies* and *Frequently Asked Questions* are available from the Energy Commission at http://www.energy.ca.gov/ghg_emissions and from the California Public Utilities Commission at www.cpuc.ca.gov - click on Climate Change.

Find out what the other Commissioners from the California Public Utilities Commission had to say at http://www.cpuc.ca.gov/PUC/news

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