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Order Instituting Rulemaking to Address Utility Cost and Revenue Issues Associated with Greenhouse Gas Emissions.	Rulemaking 11-03-012 (Filed March 24, 2011)

OPENING COMMENTS OF THE CALIFORNIA ENERGY EFFICIENCY INDUSTRY COUNCIL (EFFICIENCY COUNCIL) ON GREENHOUSE GAS (GHG) EMISSIONS ALLOWANCE AUCTION REVENUE ALLOCATION PROPOSALS

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I. Introduction and Summary

The California Energy Efficiency Industry Council (Efficiency Council) respectfully submits these opening comments on the greenhouse gas (GHG) emissions allowance auction revenue allocation proposals made by various parties in response to the "Assigned Commissioner and Administrative Law Judges' Joint Scoping Memo and Ruling" (Scoping Memo), dated September 1, 2011, and the "Joint Administrative Law Judges' Ruling Adopting Modified Schedule," dated November 16, 2011, which modified the schedule for the due date for these opening comments. These comments are submitted in accordance with Rules 1.9 and 1.10 of the California Public Utilities Commission's (CPUC or Commission) Rules of Practice and Procedure.

The Efficiency Council is a statewide trade association of non-utility companies that provide energy efficiency services and products in California.[1] Our member businesses, now numbering over 60, employ over 4,000 Californians throughout the state. They include energy service companies, engineering and architecture firms, contractors, implementation and evaluation experts, financing experts, workforce training entities, and manufacturers of energy efficiency products and equipment. The Efficiency Council's mission is to support appropriate

[1] More information about the Efficiency Council, including information about the organization's current membership, Board of Directors, and antitrust guidelines and code of ethics for its members, can be found at www.efficiciencycouncil.org. The views expressed by the Efficiency Council are not necessarily those of its individual members.

energy efficiency policies, programs, and technologies that create sustainable jobs and foster long-term economic growth, stable and reasonably priced energy infrastructures, and environmental improvement.

The Scoping Memo directed the three investor-owned electric utilities (IOUs) and other interested parties to develop GHG emissions allowance auction revenue allocation proposals following guidelines set forth in Section 6 of the Scoping Memo. After filing initial proposals, parties filed their revised proposals on January 6, 2012, to which these comments respond.

The Efficiency Council's comments are summarized as follows:

- The Efficiency Council strongly recommends that a significant amount of GHG auction revenues be invested in GHG mitigation solutions. Energy efficiency should be primary among these mitigation strategy investments, following California's loading order, as efficiency is the most cost-effective means of lowering GHG emissions and also helps lower costs to customers.
- The Efficiency Council strongly recommends that any revenues used for consumer rate relief not be returned on a volumetric basis, as this would dampen the incentive for consumers and businesses to save energy and pursue energy efficiency.

II. Discussion

1. The Efficiency Council strongly recommends that a significant amount of GHG auction revenues be invested in GHG mitigation solutions. Energy efficiency should be primary among these mitigation strategy investments, following California's loading order, as efficiency is the most cost-effective means of lowering GHG emissions and also helps lower costs to customers.

Rather than using all GHG emission allowance auction revenues for customer rate rebates, as several parties suggest, the Efficiency Council believes that in order to correct for market failures that lead to underinvestment in carbon mitigation activities and technologies, a significant portion of the GHG emission allowance revenues should be allocated to GHG mitigation investments, especially for energy efficiency. As such, the Efficiency Council agrees

that investments in energy efficiency are particularly an important use of GHG revenues, as proposed by the Natural Resources Defense Council, Sierra Club California, The Greenlining Institute, Union of Concerned Scientists, Local Government Sustainable Energy Coalition, National Consumer Law Center, Climate Protection Campaign, California Housing Partnership Corporation, and Community Environmental Council (NRDC et al.).

A particular emphasis of the investment of allowance revenue in GHG mitigation should be on energy efficiency activities for which there are significant market barriers and for which current cost-effectiveness tests and potential analyses do not fully account for long-term impacts associated with climate change, and therefore will not be included in existing utility energy efficiency portfolios. As noted by NRDC et al., additional investments beyond current ratepayer-funded efficiency programs are justified and the additional investments, using allowance revenue, should be based on modified policy rules that consider a longer-term approach to cost-effective investments than the Commission's current efficiency rules allow.[2] Substantial energy efficiency potential exists, even beyond what is currently considered to be cost-effective in the IOUs' efficiency portfolios, which will still be cheaper than other supply-side GHG mitigation options and will also help end-users save money.

While the Efficiency Council supports some direct bill assistance to at-risk consumers, such a rebate is likely to be relatively small and unnoticed by most consumers. Clean energy investments, particularly in energy efficiency, will benefit all consumers and businesses.

It is essential that a significant portion of GHG auction revenues are invested in energy efficiency for the following reasons:[3]

- The goal of a cap-and-trade program is to reduce emissions at least cost and thus it is important that the entire program be designed to accelerate low-cost reductions. The revenue side of the cap-and-trade system and how that revenue is distributed is an important part of the program and an essential part of the program design. Investing GHG auction revenue in efficiency is the cheapest, fastest, and most direct way to reduce emissions at a low cost.

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[2] NRDC et al. Revised Proposal, p. 32-33.

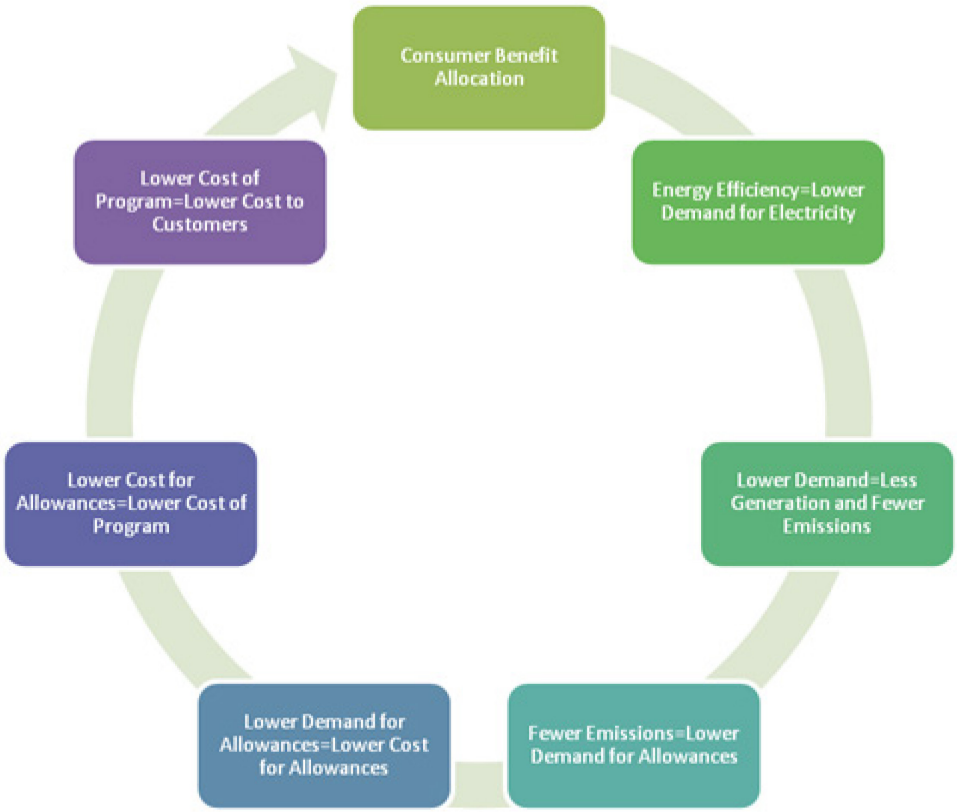
[3] With assistance from Richard Cowart, Regulatory Assistance Project.

- In a very real sense *carbon revenues* are more important than *carbon prices*. Carbon prices at the levels that are acceptable politically in the U.S. are insufficient to drive a transformation on the demand side, or for that matter on the supply side. Calculations completed by the Regulatory Assistance Project (and others) show that the public will benefit from seven to nine times more carbon reduction per consumer dollar in electricity rates via direct efficiency programs than they would via the conservation effect of simply raising rates.
- Consumers are better off if the revenue is invested in efficiency rather than returned directly to consumers. This is true for four reasons:
    1. Efficiency programs deliver more than $1 in benefits for each $1 delivered, so consumers receive greater value through efficiency investments than through a direct rebate;
    2. Lowering demand for electricity lowers clearing prices for GHG allowances, so ALL consumers – both those participating in EE programs and those not participating – benefit from lower power prices, and lower transfer payments paid to generators;
    3. Lower demand for electricity means lower carbon prices, which lowers costs on any service or product that will be affected by carbon prices, both within and outside of the electricity sector; and
    4. Lower demand for electricity delivers additional non-price benefits to all consumers – lower stress on transmission/distribution systems, thus greater reliability and less need for expensive new lines, lower emissions of conventional pollutants, improved health benefits, less money leaving California to import natural gas, etc.

Thus, as the diagram below shows, a focus on allocating GHG revenues for consumer benefit, with investments targeted for energy efficiency, will help California's cap-and-trade program effectively lower GHG emissions at lower cost than a program that relies only on allowance prices to drive changes in energy practices. Energy efficiency investment lowers all of the following: demand for electricity, associated emissions, demand for allowances, cost of

allowances, program costs, and thus overall cost to consumers (especially important to low-income consumers).

Consumer Benefit & Strategic Investment in Energy Efficiency[4]



In this way, an energy efficiency investment strategy for the use of GHG auction revenues is a jobs plan and an economic revitalization plan, as well as simply smart economics. Such efficiency investments will shift California's energy investments to investing in local economies and creating jobs – which can never be outsourced – to upgrade homes, offices and factories in the state. This shift also creates a virtuous cycle by lowering energy bills for businesses and consumers, freeing up even more money that can be invested in the local economy.

[4] Regulatory Assistance Project, "Climate Policy and Affordability: Advocacy Opportunities in the Northeast," September 18, 2009, page 8. http://raponline.org/document/download/id/74.

Lessons Learned from the Regional Greenhouse Gas Initiative Experience

A primary basis for our recommendations to use a significant portion of auction revenues for energy efficiency investments is the experience of the Regional Greenhouse Gas Initiative (RGGI). In 2008, ten Northeastern and Mid-Atlantic states began RGGI as the country's first market-based program to reduce emissions of carbon dioxide (CO_2) from power plants. Under RGGI, states are investing approximately three-quarters of auction revenues to reduce GHG emissions and save consumers money. Success stories abound of how RGGI's clean energy investments, particularly in energy efficiency, benefit all consumers and businesses.[5]

The RGGI experience in 2009 demonstrates the benefits of "revenue recycling" in energy efficiency investments as smart economics for consumers:[6]

- About 90% of allowances were auctioned, and about 60% ($295 million) of the revenues generated were used for efficiency investments;
- Energy efficiency-based CO2 reductions cost an average of -$73 per ton, compared with supply-only fuel substitution in electric generation at costs of approximately $50/ton;
- Each $1 of energy efficiency investments lowered electricity costs by a range of $2.17 to $3.76;
- Efficiency programs have saved the region $1.6 billion from actions taken thus far and have added 16,000 jobs to the economy.

Another study of the RGGI investments in efficiency indicated the following macroeconomic benefits, wherein the RGGI states have experienced dollar savings, job growth, and economic growth from energy efficiency:[7]

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[5] See RGGI's compilation of success stories (http://www.rggi.org/rggi_benefits/success_stories), as well as its report on "Investment of Proceeds from RGGI CO2 Allowances," February 2011 (http://www.rggi.org/docs/Investment_of_RGGI_Allowance_Proceeds.pdf).

[6] Synapse Energy Economics. "Electricity Energy Efficiency Benefits of RGGI Proceeds: An Initial Analysis." October 2011. http://www.synapse-energy.com/Downloads/SynapseReport.2010-10.RAP.EE-Benefits-of-RGGI-Proceeds.10-027.pdf. Report currently being updated.

[7] Environment Northeast. "Economy-wide Benefits of RGGI: Economic Growth through Energy Efficiency." September 2011. http://www.env-ne.org/public/resources/pdf/ENE_RGGI_Macroeconomic_Benefits_110915.pdf.

Table 1: Macroeconomic Benefits of RGGI Efficiency Funding To-Date

ENE	Revenue ($ millions)	EE Funding ($ millions)	Savings ($ millions)	Jobs Multiplier (Job Years/$1m EE Funding)	Jobs (Job Years)	GSP Multiplier (GSP increase/ $1 in EE)	GSP Growth ($ millions)
Connecticut	$51.7	$36.0	$129.4	41.2	1,481	5.7	$204.9
Delaware	$22.5	$9.5	$25.9	45.5	434	5.9	$56.3
Maine	$27.2	$25.4	$119.4	58.1	1,476	4.9	$124.5
Maryland	$169.6	$39.5	$109.4	45.5	1,796	5.9	$232.9
Massachusetts	$142.5	$126.1	$390.8	43.4	5,472	6.4	$806.9
New Hampshire	$32.9	$29.0	$99.3	52.7	1,531	5.9	$171.4
New Jersey	$118.3	$39.2	$98.5	45.5	1,785	5.9	$231.4
New York	$326.7	$146.5	$145.1	45.5	6,667	5.9	$864.5
Rhode Island	$14.3	$8.2	$26.1	48.7	399	5.4	$44.3
Vermont	$6.6	$6.5	$24.0	49.6	321	4.3	$27.8
Total	**$912.3**	**$465.9**	**$1,167.9**	**45.8**	**21,361**	**5.9**	**$2,764.8**

Furthermore, the following excerpts from The Analysis Group's report, "The Economic Impacts of the Regional Greenhouse Gas Initiative on Ten Northeast and Mid-Atlantic States"[8] further illustrate the benefits of investment of GHG auction revenues in energy efficiency:

> "Understanding the program's performance and outcomes is important given that RGGI states account for one-sixth of the population in the US and one-fifth of the nation's gross domestic product….Insights and observations gleaned from an analysis of RGGI's performance are valuable in evaluating past policy decisions and future policy recommendations….The rights to emit CO2 have been auctioned off. Power plant owners have spent roughly $912 million to buy CO2 allowances. Consumers now pay regional electricity rates that reflect a price on CO2 emissions. These emissions have gone down, affected by both RGGI and larger economic conditions. States have received, programmed, and disbursed virtually all the $912 million in allowance proceeds back into the economy in myriad ways – on energy efficiency measures, community-based renewable power projects, assistance to low income customers to help pay their electricity bills, education and job training programs…" (p. 1)
>
> "A significant percentage of RGGI allowance proceeds went to funding investments in energy efficiency programs across the RGGI states. Programs included auditing and benchmarking efforts, investments in retrofit measures for existing homes (e.g., window and door treatments, insulation); residential lighting and appliance change-out (replacing refrigerators, washers, dryers or air conditioners with more efficient ones); commercial building shell, lighting, and equipment replacement; and new building measures (e.g.,

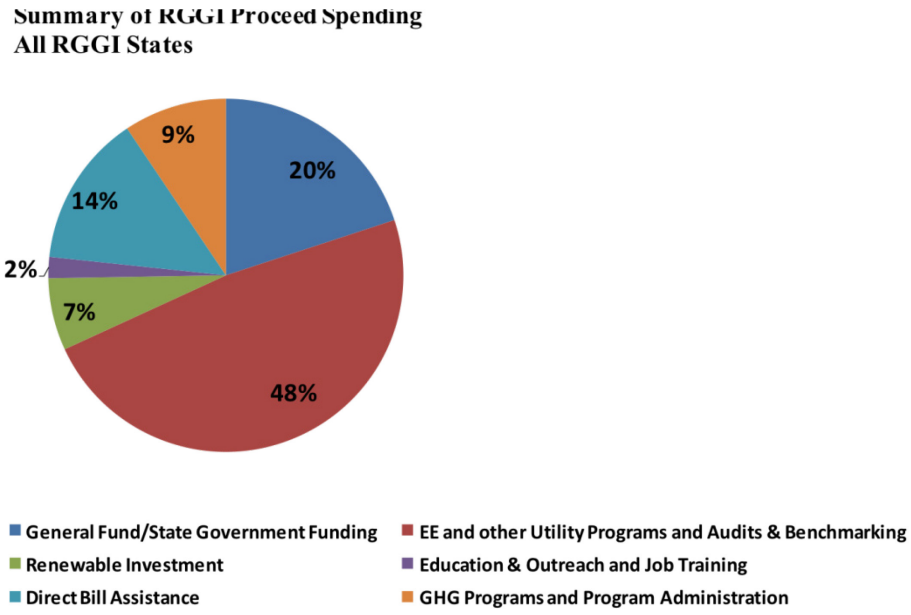
[8] The Analysis Group, Paul J. Hibbard, Susan F. Tierney, Andrea M. Okie, Pavel G. Darling. "The Economic Impacts of the Regional Greenhouse Gas Initiative on Ten Northeast and Mid-Atlantic States: Review of the Use of RGGI Auction Proceeds from the First Three-Year Compliance Period." November 15, 2011. http://www.analysisgroup.com/uploadedFiles/Publishing/Articles/Economic_Impact_RGGI_Report.pdf.

funding for more efficient materials and appliances at the time of new construction).” (p. 30)

“RGGI produced $1.6 billion in net present value (NPV) economic value added to the ten-state region. The region’s economy – and each state’s as well – benefits from the RGGI program expenditures. When spread across the region’s population, these economic impacts amount to nearly $33 per capita in the region.” (p. 2)

“RGGI has also produced changes in consumers’ overall expenditures on electricity. Although GHG allowances tend to increase electricity prices in the near term, there is also a lowering of prices over time because the states invested a substantial amount of the allowance proceeds on energy efficiency programs that reduce electricity consumption. After the early impacts of small electricity price increases, consumers gain because their overall electricity bills go down as a result of this investment in energy efficiency. All told, electricity consumers overall – households, businesses, government users, and others – enjoy a net gain of nearly $1.1 billion, as their overall electric bills drop over time. This reflects average savings of $25 for residential consumers, $181 for commercial consumers, and $2,493 for industrial consumers over the study period. Consumers of natural gas and heating oil saved another $174 million.” (pp. 3-4)

The following figure shows where RGGI allowance revenue was invested.[9]



Source: Individual state reports and interviews.
Note: Certain grant programs may include multiple components, and are categorized in the figure above based on the largest share of spending.

[9] Id, p. 20.

For further information on the RGGI experience, beyond the references already cited within these comments, we suggest review of the following documents:

- RGGI, Inc., "Why Energy Efficiency?": http://rggi.org/rggi_benefits/why_efficiency;
- Example of auction press release and emphasis on EE, and a list of examples of state investments: http://www.rggi.org/docs/Auction_11_Release_Report.pdf;
- Article on RGGI and EE investment: http://neep.org/news/newsletters/neep-notes/notes-features/features-Jul11#rggi;
- Environment Northeast's auction tracker: http://www.env-ne.org/public/resources/pdf/ENE_Auction_Tracker_110915.pdf.

2. The Efficiency Council strongly recommends that any revenues used for consumer rate relief not be returned on a volumetric basis, as this would dampen the incentive for consumers and businesses to save energy and pursue energy efficiency.

The Joint IOUs, City and County of San Francisco and Marin Energy Authority all propose that 100% of the GHG emissions allowance auction revenues be returned directly to customers via bill rebate on a volumetric basis, in proportion to the AB 32 costs incurred. As discussed above, the Efficiency Council strongly urges the Commission to ensure a significant investment of auction revenues in energy efficiency to both reduce GHG emissions and to reduce overall costs to consumers and businesses. However, for any portion of auction revenues used for rate relief, the customer rebate should not be calculated on a volumetric basis, which in effect rewards the highest energy consumers and does not encourage customers to pursue energy efficiency, which would lower their electricity consumption. As NRDC et al. note, a volumetric return "indiscriminately rewards end-use electricity consumption with a higher share of allowance revenues."[10] We urge the Commission to develop a means of and methodology for rate relief that does not dilute the incentive to conserve electricity and invest in energy-saving measures.

[10] NRDC et al. Revised Proposal, p. 21.

III. Conclusion

The Efficiency Council appreciates the opportunity to provide these opening comments looks forward to working with the Commission and other stakeholders to ensure that a significant portion of revenues from auctioning of GHG emission allowances are appropriately invested in energy efficiency that will both help lower GHG emissions and save consumers money.

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Respectfully submitted,

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