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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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)

ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of: AB 32 Implementation: Greenhouse Gases	)	Docket 07-OIIP-01

REPLY COMMENTS OF THE LOS ANGELES DEPARTMENT OF WATER AND POWER ON POLICIES REGARDING EMISSION ALLLOWANCE ALLOCATION, FLEXIBLE COMPLIANCE, TREATMENT OF COMBINED HEAT & POWER, NON-MARKET-BASED EMISSION REDUCTION MEASURES AND EMISSION CAPS, AND GREENHOUSE GAS MODELING RESULTS

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June 16, 2008

REPLY COMMENTS OF THE
LOS ANGELES DEPARTMENT OF WATER AND POWER
ON POLICIES REGARDING EMISSION ALLLOWANCE ALLOCATION, FLEXIBLE COMPLIANCE, TREATMENT OF COMBINED HEAT & POWER, NON-MARKET-BASED EMISSION REDUCTION MEASURES AND EMISSION CAPS, AND GREENHOUSE GAS MODELING RESULTS

In accordance with Rule 14 of the Rules of Practice and Procedure of the Public Utilities Commission ("CPUC" or "Commission") of the State of California, the Los Angeles Department of Water and Power ("LADWP") hereby files the following Reply Comments submitted in response to the Administrative Law Judges' Rulings, dated April 16, 2008, May 1, 2008, May 6, 2008, May 13, 2008, and May 20, 2008, in CPUC Rulemaking R.06-04-009 ("Rulemaking") and California Energy Commission (CEC) Docket # 07-OIIP-1.

The LADWP remains committed to partnering with the State to achieve the goals of Assembly Bill 32 (AB 32) to reach 1990 greenhouse gas (GHG) emission levels by 2020. Our burden of shifting our portfolio from high-carbon resources to zero- and low-carbon resources is no small task and we have fully embraced our responsibility to make that transformation happen as early as possible, and not wait until 2012 when formal compliance begins. This commitment drives our clear and undeniable compliance path for AB 32 – to continue investments in aggressive energy efficiency programs and renewable energy projects to reach our goal of 35% renewables by 2020 as first priority and to rely on an emissions allowance trading market only as a secondary compliance alternative. The LADWP continues to support quantifiable emission reductions with enforceable, declining, entity-specific emission caps. The best, most responsible and transparent use of LADWP ratepayer dollars is to reduce our emissions directly and not divert those limited dollars into a cap-and-trade auction to purchase emission allowances from unknown sources. The LADWP cannot support an allowance allocation methodology or auction that diverts our ratepayer dollars into state coffers, to other utilities, or to other market participants, and away from the very investments that are needed to help the State achieve its AB 32 emission reduction goals. Proponents of market

mechanisms have relied heavily on economic theory, simply because real-world applications of cap-and-trade have provided less than "rosy" examples of successful implementation. Absent are examples that avoid market manipulation, gaming, windfall profits, and market power – all key concerns and risks associated with cap-and-trade.

The LADWP fully and enthusiastically supports the State's efforts to increase renewables statewide to 33% by 2020 as a foundational strategy to implement AB 32, and we will continue to work with State agencies to address the regulatory and environmental barriers to achieve that goal. An overwhelming number of parties recognize that increasing renewables beyond 20% is both prudent and necessary to ensure that California maximizes long-term, permanent, and verifiable emission reductions and puts the State on a path to a low-carbon economy.[1] At the same time, it is critical that California begin in earnest to tackle the regulatory and environmental hurdles to building renewable energy resources, including the planning and construction of transmission and streamlining the permitting processes. As shown by the E3 modeling, the pricing signals sent by cap-and-trade alone cannot be expected to motivate developers to overcome the transmission and land use issues associated with renewables, let alone to drive the long-term capital investments required to make that significant shift in energy production for California.

The cost effectiveness of direct emission reductions through renewables must be compared to realistic future costs for fossil generation.[2] Currently, the price of oil has hit a record high of $140 per barrel. Natural gas prices typically follow the trend at a 10:1 ratio. As such, it is very likely that natural gas prices will rise to $14 per MMBtu. As drought conditions

[1] CEERT at 11-12, GPI at 31, NRDC at 31-32, LADWP at 6, CCUE/CURE at 2, CalWEA/LSA at 7.

[2] CEERT at 16, Community Environmental Council at 3, NRDC at 8.

persist in the West and hydro generation declines, increased natural gas generation will likely increase natural gas demand and prices.

The LADWP looks forward to working with the Joint Commissions, the Air Resources Board, and AB 32 stakeholders to continue to explore and evaluate cap-and-trade design issues in the context of the Scoping Plan. It has become evidently clear that a California-only cap-and-trade program is not viable, and that a cap-and-trade program must be developed in the context of a broader regional and/or national effort. The economic modeling conducted by E3 provides a good starting point for evaluating cap-and-trade policy options, but by no means has it been adequately reviewed, vetted, and evaluated to rest upon it the critical decision of how to distribute emission allowances within the electricity sector. The model must be able to evaluate allocation options such as fossil-based fuel differentiation that may provide useful insights into other allowance allocation methodologies that may better address the staff's evaluation criteria related to distributional impacts. This is important not just within the context of the California electricity sector, but also a multi-sector AB 32 program and also the Western Climate Initiative (WCI) regional cap-and-trade program.

LADWP appreciates the efforts of the Joint Commissions to utilize this proceeding to explore the complex issues surrounding electricity sector emission reduction strategies and cap-and-trade design. Parties, including LADWP, have gained valuable insights that help bring to the surface different perspectives and considerations. LADWP remains committed to the successful implementation of AB 32 and to reducing our GHG emissions. We will continue to actively engage in the ARB Scoping Plan process and work with others to develop a viable GHG emission reduction program.

CONCLUSION

The LADWP appreciates the opportunity to provide these reply comments to the CPUC and CEC for your consideration.

Dated: June 16, 2008 Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the attached:

**REPLY COMMENTS OF THE
LOS ANGELES DEPARTMENT OF WATER AND POWER
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FLEXIBLE COMPLIANCE, TREATMENT OF COMBINED HEAT & POWER,
NON-MARKET-BASED EMISSION REDUCTION MEASURES AND EMISSION CAPS,
AND GREENHOUSE GAS MODELING RESULTS**

on all known parties to R.06-04-009 by transmitting an e-mail message with the document attached to each party named in the official service list, updated June 13, 2008. See attached service list. I served a copy of the document on those without e-mail addresses by mailing the document by first-class mail addressed as follows:

See attached service list.

I also caused courtesy copies to be delivered as follows:

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Executed this 16TH day of June 2008, at Los Angeles, California.

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