

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



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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)

**PREHEARING CONFERENCE STATEMENT REPLY
COMMENTS OF THE WESTERN POWER TRADING FORUM**

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May 5, 2011

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I. INTRODUCTION.

In accordance with the direction provided in Order Instituting Rulemaking issued by Commission President Michael Peevey on March 30, 2008 (“OIR”), to address utility cost and revenue issues associated with greenhouse gas (“GHG”) emissions, the Western Power Trading Forum (“WPTF”) respectfully submits the following reply comments in response to several of the submissions that were made on April 21, 2011 regarding the proceeding.

1. **Reply (in opposition) to Pacific Gas and Electric (“PG&E”), Southern California Edison, and San Diego Gas and Electric Company/Southern California Gas Company (“SDG&E/SCG”).** The comments of PG&E, SCE and SDG&E/SCG urge the Commission to adopt an expedited decision regarding utilities’ procurement of greenhouse gas (GHG) allowances and offset credits within the Long-Term Procurement Proceeding. WPTF supports an expedited decision but urges the Commissions to address procurement of allowances and offsets within *this* proceeding. These two issues should not be bifurcated.
2. **Reply (in support) of the Energy Producers and Users Coalition (“EPUC”) and the Cogeneration Association of California (“CAC”) and Independent Energy Providers (“IEP”).** EPUC, CAC and IEP have raised several concerns regarding the ability of CHP facilities and independent generators to recover their GHG costs under existing contract arrangements. WPTF supports expansion of the scope of this proceeding to consider these issues
3. **Reply (in opposition) to SDG&E/SCG.”.** SDG&E/SCG suggest that the scope of this proceeding be expanded to address the use of allowance revenue by natural gas utilities. WPTF opposes the inclusion of this issue as premature at this time.

II. UTILITY AUTHORIZATION TO PROCURE GHG ALLOWANCES AND OFFSETS SHOULD BE ADDRESSED EXPEDITIOUSLY WITHIN THIS PROCEEDING.

Use of allowance revenue, procurement of GHG allowances and offsets, and management of GHG costs in procurement are inextricably linked and should be addressed in the same proceeding. For instance, utilities' need for allowances and offsets will be driven by their direct compliance obligations, as well as any obligations they may incur on behalf of generators from whom they procure power. Similarly, if any portion of allowance revenue is used to provide cost recovery to generators, this would have to be taken into account in the development of guidance on how the utilities assess GHG costs. PG&E, SCE and SDG&E/SCG have recommended that the utilities procurement of GHG allowances and offsets, and GHG costs associated with electricity procurement should be bifurcated from this proceeding and dealt with in the IOUs' Long Term Procurement Planning ("LTPP") proceeding. If the Commission were to split the procurement issues away from use of allowance revenue, then neither proceeding would have a complete picture of costs and revenue issues. We therefore urge the Commission to address all GHG revenue, cost and procurement issues within this proceeding, and avoid any bifurcation of these issues.

We also urge the Commission to reject the proposal by PG&E for an interim decision on the use of allowance revenue by utilities by September 8, 2011. CARB is not expected to conduct auction allowances until February 2012 at the earliest, which means that utilities will not be in receipt of auction revenue until that date. Therefore, while WPTF would support an expeditious decision, we believe that an arbitrary September deadline may unnecessarily rush this proceeding and preclude full consideration of this important issue.

III. UNRESOLVED ISSUES RELATED TO GHG COST RECOVERY BY CHP FACILITIES AND INDEPENDENT POWER PRODUCERS SHOULD BE CONSIDERED IN THIS PROCEEDING TO THE EXTENT THEY FALL UNDER COMMISSION AUTHORITY

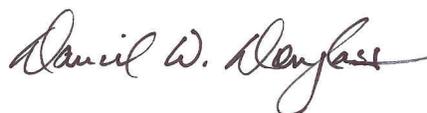
EPUC and CAC raised several issues related to recovery of GHG costs by Combined Heat and Power (CHP) Facilities that remain unresolved. Similarly, IEP has raised a concern regarding independent generators with long-term contracts that do not provide for recovery of GHG compliance costs. WPTF notes that cost recovery for these entities could be addressed in one of several ways: direct allocation of allowances (under CARB's jurisdiction), allocation of

allowance auction revenue, or through revision in contract terms. Given that the latter two of these remedies have been explicitly identified as topics for consideration in this proceeding and fall under the Commission's authority, WPTF believes that it would be appropriate to consider GHG cost-recovery by these entities in this proceeding. Resolution of some of the cost recovery problems here may reduce the number of contracts requiring CARB's further consideration. CPUC staff should work closely with CARB on these issues.

IV. THE PROCEEDING SHOULD NOT BE EXPANDED TO CONSIDER THE USE OF ALLOWANCE REVENUE BY NATURAL GAS UTILITIES.

SDG&E/SCG have requested that this proceeding be expanded to include consideration of the use of allowance revenue by natural gas utilities. The California Air Resources Board has indicated that residential and commercial natural gas consumption will be subject to the cap and trade program as of the second compliance interval in 2015. In anticipation of this eventuality, the cap and trade regulation contains a place-holder for allocation of allowance revenues to natural gas utilities. However, the regulation provides no detail on how this sector will be treated under the cap and trade program, including important issues such as the point of regulation for this sector and ways to ensure that natural gas-fired generation is not doubly assessed carbon costs. Given this uncertainty, WPTF believes that it would be premature, and potentially prejudicial to CARB's future work, to consider this issue within the proceeding at this time. We urge the Commission to reject this request.

Respectfully submitted,



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WESTERN POWER TRADING FORUM

May 5, 2011

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of ***Prehearing Conference Statement Reply Comments of the Western Power Trading Forum*** on all parties of record in proceeding ***Rulemaking 11-03-012*** by serving an electronic copy on their email addresses of record and by mailing a properly addressed copy by first-class mail with postage prepaid to each party for whom an email address is not available.

Executed on May 5, 2011, at Woodland Hills, California.



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