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GHG Reductions Recommendations Adopted

Sacramento –The California Energy Commission and the California Public Utilities Commission (CPUC) 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", proposed jointly by Chairman Jackalyne Pfannenstiel and Commissioner Jeffrey Byron (California Energy Commission's AB 32 Implementation Committee) and President Michael R. Peevey (CPUC) 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 Energy Commission 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.

Said CPUC Commissioner Dian M. Grueneich, "This decision recognizes energy efficiency is the corner stone of addressing climate change and the important role of California' new Long Term Energy Efficiency Strategic Plan in meeting our ambitious energy efficiency goals."

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.

To achieve these ambitious cuts in greenhouse gas 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 the use of electricity from renewable resources to at least 33 percent for all utilities and other retail electricity providers.
- Concludes that the impacts of a cap-and-trade program will vary depending on the utility 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 electricity grid be included in the cap-and-trade program and receive GHG emission allowances comparable to other electricity providers and utilities. (CHP is a technological process that generates both electricity and useful thermal output from a single fuel source, such as a gas turbine. Because of this co-generation, there can be significant fuel efficiency gains relative to processes that provide electricity and useful industrial or commercial heat separately.)
- Identifies auctioning as the preferred ultimate method to distribute GHG 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.
- 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.
- Requires that the paramount consideration in designing the emissions market design be maintaining environmental integrity. Further, the market design should encourage open and transparent allowance trading with many participants. Unlimited banking of allowances should be permitted. Offsets must be real and permanent but 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. The *Final Opinion* also calls for the ARB to adopt market monitoring procedures, rules and other safeguards to protect consumers from market abuses.

“This decision is an important step forward in creating a statewide program to limit and ultimately reduce greenhouse gas emissions,” said CPUC Commissioner John A. Bohn. “The market-based cap-and-trade system recommended in our decision is, and will remain, controversial. We should expect that political compromises will be proposed as this process moves forward, and we must remain vigilant to ensure that the final product retains the balance of equity and effectiveness that we are striving to achieve.”

Both Commissions concluded that more analysis is required in a number of 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.

“Our recommendation for a region wide cap-and-trade system will unleash innovation solutions for climate change,” commented CPUC Commissioner Rachelle Chong. “I would like to see Silicon Valley become Clean Green Valley as entrepreneurs help us achieve green house gas reductions.”

"We should encourage the ARB to ensure that adequate self-regulatory mechanisms are in place should a cap-and-trade system be adopted," said Commissioner Timothy Alan Simon. "Revenues from the prospective emissions allowance auction should be returned to consumers, and should also be invested in a statewide green energy workforce development program."

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 www.energy.ca.gov/ghg_emissions and from the CPUC at www.cpuc.ca.gov - click on Climate Change.

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