

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

Order Instituting Rulemaking to Integrate
and Refine Procurement Policies and
Consider Long-Term Procurement Plans

Rulemaking R-12-03-014

**COMMENTS OF THE GREEN POWER INSTITUTE
ON TRACK 3 RULES ISSUES**

November 2, 2012

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Introduction

Pursuant to the *Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge*, dated May 17, 2012, and the October 4, 2012, email of ALJ Gamson modifying the due date, the Green Power Institute (GPI) respectfully submits this *Comments of the Green Power Institute on Track 3 Rules Issues*, in R.12-03-014, the **Order Instituting Rulemaking to Integrate and Refine Procurement Policies and Consider Long-Term Procurement Plans**. Our interest in Track 3 of the LTPP Proceeding is focused on the three issues relating to greenhouse gases, issues nos. 3, 4, and 15 in the *Scoping Memo and Ruling*.

3. Minimizing the Need for Acquiring Compliance Instruments

Issue no. 3 under Track 3 reads: “Ensuring utilities reduce their need to procure GHG compliance instruments by pursuing cost-effective GHG emissions reductions on a portfolio-wide basis (*Scoping Memo and Ruling*, pg. 12).” It is important to remember that, although the utilities will be given large allocations of greenhouse-gas-compliance instruments (emissions allowances), the fact is that all of those allowances will be auctioned in order to generate funds that are supposed to be used on behalf of the interests of ratepayers, leaving the utilities to have to acquire from the marketplace all of the compliance instruments they need to cover their own emissions under the cap-and-trade program.

In fact, the utilities will have both direct and indirect obligations for greenhouse-gas-compliance instruments. In addition to having to surrender compliance instruments against their own emissions, they will be purchasing electricity from third parties who will have to procure emissions allowances in addition to all of their other costs of electricity production, and unless these new costs-of-energy production are covered, the

electricity will not be available to the utilities. Nevertheless, the non-utility generators themselves will have to procure their own emissions allowances. The utilities will simply have to provide adequate compensation in order to keep these generators in production, but they will not be responsible for procuring their emissions permits. Thus the compliance instruments needed by non-utility generators presumably would not be covered by rules designed to minimize the utilities' need to acquire greenhouse-gas-compliance instruments.

The essential rationale behind the creation of the hugely complex cap-and-trade program is to let the market set the value of carbon, and thereby the value of carbon reduction. When carbon emissions have a cost, those who emit them will have an automatic incentive to try to minimize them, and if the market is operating efficiently the magnitude of the incentive will be set at exactly the socially efficient level. Thus, we have to wonder what additional incentives the Commission thinks are necessary at this time in order to ensure that the utilities will be adequately reducing their need to procure greenhouse-gas compliance instruments to offset the emissions of their own operations. We also note that if rules are enacted for emissions reductions that go beyond the market value of carbon, there is a strong potential to create an incentive for utilities to shift emissions from the category of direct to the category of indirect (shift them to non-utility suppliers), which produces no net reduction in greenhouse-gas emissions.

4. Procurement of Compliance Instruments

Decision D.12-04-046 in the 2010 LTPP Proceeding, R.10-05-006, set initial rules for the procurement of greenhouse-gas compliance instruments by the utilities, taking what we consider to be a properly cautious approach to this yet-to-be-launched market. In particular, the initial rules do not allow for the use by the utilities of potentially speculative instruments, such as derivatives. We are not aware of any unresolved issues regarding the initial rules that have been set for the utility acquisition of greenhouse-gas procurement instruments at this point in time, but due to the inherently unpredictable

nature of a newly-created market, we believe that the Commission should monitor the situation closely and be prepared to make adjustments to the rules as needed.

15. Facilitating the Implementation of the Cap-and-Trade Program

After a series of delays the initial auction of greenhouse-gas emissions allowances for the California Cap-and-Trade program is scheduled to take place later this month, and the Cap-and-Trade program itself will go into effect on January 1, 2013. At this point the Commission has already authorized the utilities to procure greenhouse-gas-compliance instruments to offset the emissions from their own operations, and in a parallel proceeding at this Commission, R.11-03-012, is expected to issue a Proposed Decision shortly that will create the ratepayer-benefit programs that will be funded by the proceeds from the auctions of the greenhouse-gas allowances allocated to the utilities. We do not know of any additional measures that the Commission needs to take at this point in time to facilitate the implementation of the Cap-and-Trade program. It would be helpful for the Commission to provide an expedited means for the consideration of measures that might be needed to adjust for unexpected circumstances as the new program begins operation, whether that would happen in R.12-03-014, the LTPP proceeding, R.11-03-012, the proceeding looking at cost issues and greenhouse gases, or an as yet to be opened proceeding.

Dated November 2, 2012, at Berkeley, California.
Respectfully Submitted,



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