

STATEMENT OF COMMISSIONER DIAN M. GRUENEICH

ADOPTION OF A CPUC POLICY STATEMENT ON GREENHOUSE GAS EMISSIONS PERFORMANCE STANDARD

This June, our Governor took a historic step in setting clear and ambitious goals for the reduction of greenhouse gas emissions produced by the state of California. Governor Schwarzenegger announced that California will be “the leader in the fight against global warming” and furthermore, that “the time for action is now.”

The Public Utilities Commission (PUC) and the California Energy Commission (CEC) have stepped up to the Governor’s call for action by adding measures to address climate change in the Energy Action Plan II (EAP II) that we have just adopted. Specifically, Action Item 7 in the Climate Change section is: “Ensure that energy supplies serving California, from any source, are consistent with the Governor’s climate change goals.” The PUC has also moved forward on a number of fronts to implement the Governor’s strategies for meeting the emissions reduction goals. For example, PUC recently adopted the most aggressive energy efficiency program in the history of the utility industry and is laying the foundation for meeting the Governor’s 33 percent goal for renewable resources.

However, we risk losing the emissions reductions we are achieving in these areas if we do not take a hard look at emissions from conventional fossil-fuel resources. If we allow procurement to shift to conventional resources that do not employ effective technologies for controlling emissions, we could wipe out the emissions reductions achieved through our programs. For

example, the GHG emissions from three 500 megawatt conventional coal plants will equal the reductions in emissions that are achieved through our 2006-2008 energy efficiency programs. We also will have done nothing to address the financial risk to ratepayers of future regulation of GHG emission and nothing to encourage the advancement of state-of-the-art technologies to control emissions.

I would like to commend CEC Commissioners Geesman and Boyd for taking the issue by the horns in the draft 2005 Integrated Energy Policy Report (IEPR) by proposing a greenhouse gas performance standard for electricity procurement. I also commend CEC Chair Desmond for his thoughtful response further exploring the proposal. The CEC is holding a hearing on the climate change section of the draft IEPR tomorrow and will be accepting comments through October 15. It is critical that this Commission – as the agency vested with the authority to approve procurement plans for our three investor-owned utilities - weigh in on the proposal in the draft IEPR.

The proposed Policy Statement is our response and the starting point for a thorough review of the actions we need to take to ensure that California moves forward in reducing greenhouse gas emissions, not backwards. Consistent with our commitment in EAP II to “encourage the development of cost-effective, highly-efficient, and environmentally-sound supply resources to provide reliability and consistency with the State’s energy priorities” we must take a serious look at a greenhouse gas emissions standard that send a clear signal on the kinds of resources that should be

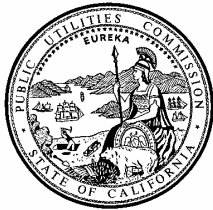
developed to meet California demand. We have directed staff to investigate a standard that is no higher than a combined cycle natural gas plant for longer term investments.

I am aware that there are concerns regarding whether this standard will apply to all generation or just baseload generation. It is my understanding that applying such a standard to peaking plants is impracticable at this time, but this is certainly a question that will be thoroughly examined. We do not intend to impose requirements that are not technologically feasible or that are financially prohibitive.

However, we will not accept “it’s not possible” as an answer unless we have thoroughly reviewed the solutions and potential solutions. Governor Schwarzenegger has called on the State to lead the way in reversing the deadly consequences of global warming. As Commissioner Kennedy so ably demonstrated by raising the bar for the utilities in their energy efficiency programs and successfully challenging them to rise to the occasion, it is possible and necessary to move beyond the status quo and to move beyond the “we can’t’s” and “we won’t’s”. The utilities are now justifiably proud of developing energy efficiency programs that are projected to exceed the goals set by the Commission for 2006 through 2008.

We have, we can, and we will continue to lead in the area of reducing emissions that cause global warming. Only 4 months after the Governor’s action, we have evidence of the damage that could be caused by global warming in the tragic aftermath of Hurricanes Katrina and Rita. As the Governor stated in his historic World Environment Day speech, “We have

no choice but to meet this challenge. It is not enough to be the caretaker of the world we have been given. We must leave a better world for our children and their children.”



California Public Utilities Commission

505 Van Ness Avenue, San Francisco, CA 94102

POLICY STATEMENT ON GREENHOUSE GAS PERFORMANCE STANDARDS October 6, 2005

WHEREAS, In June 2005 Governor Schwarzenegger announced his groundbreaking initiative to reduce California's greenhouse gas (GHG) emissions to 1990 levels by 2020; and

WHEREAS, The California Public Utilities Commission (PUC) is actively participating in the Governor's Climate Action Team and is implementing energy policies that are consistent with the GHG goals; and

WHEREAS, Over the past 12 months the State of California has taken significant strides towards implementing an environmentally and economically sound energy policy through Governor Schwarzenegger's GHG reduction targets and the adoption of the Energy Action Plan II (EAP II) by the PUC and the California Energy Commission (CEC). These policies recognize that principal reliance on energy efficiency, conservation measures and renewable resources is the path to a sustainable energy future that ensures adequate and reliable supply at stable prices; and

WHEREAS, The PUC will meet the Governor's GHG goals and implement the policies set forth in EAP II. The PUC has established new, aggressive standards for energy efficiency and is developing a plan to meet the Governor's goal of a 33 percent renewable portfolio standard by 2020; and

WHEREAS, To the extent efficiency, demand response, renewable resources, and distributed generation are unable to satisfy increasing energy and capacity needs, EAP II states that the State will rely on clean and efficient fossil-fired generation. A key action item in EAP II is to "encourage the development of cost-effective, highly-efficient, and environmentally-sound supply resources to provide reliability and consistency with the State's energy priorities."; and

WHEREAS, The PUC concluded in its December 2004 decision approving the IOUs' long-term procurement plans (Decision 04-12-048) that future regulation of GHG emissions is probable and directed the Investor Owned Utilities (IOUs) to employ an environmental adder in evaluating procurement bids. A GHG emissions standard will further serve to internalize "the significant and under-recognized cost of GHG emissions" recognized in the PUC's Decision, and to reduce California's exposure to costs associated with future regulation of these emissions; and

WHEREAS, The establishment of a policy such as a GHG emissions standard for all electric procurement is a logical and necessary step to meet EAP II and the Governor's GHG goals. In order to have any meaningful impact on climate change, the Governor's GHG emissions reduction goals must be applied to the State's electricity consumption, not just the State's electricity production; and

WHEREAS, The CEC has requested the PUC's input on a proposed GHG policy for electricity generation contained in the 2005 draft *Integrated Energy Policy Report* (Draft IEPR) that, ". . .

any GHG performance standard for utility procurement be set no lower than levels achieved by a new combined-cycle natural gas turbine.”; and

WHEREAS, In a letter to the IEPR Committee, CEC Chairman Desmond stated, “. . . California should act to minimize potentially significant reliability and cost risks by avoiding more long-term investments (exceeding 3-5 years in duration) in baseload power plants with emissions per megawatt-hour of greenhouse gases and criteria air pollutants exceeding those of a combined cycle natural gas turbine.”; and

WHEREAS, The State’s energy agencies must act expeditiously and in concert to send the right investment signals to electricity markets throughout the West. Many of the resources that may generate electricity for consumption in the State are currently in the planning stage. For example, there are approximately 30 proposed coal fired plants across the West, some of which are planned in anticipation of meeting demand in California. The carbon dioxide emissions from just three 500 MW conventional coal-fired power plants would offset all of the emissions reductions from the IOUs’ energy efficiency programs and would seriously compromise the State’s ability to meet the Governor’s GHG goals. As the largest electricity consumer in the region, California has an obligation to provide clear guidance on performance standards for utility procurement; and

WHEREAS, Publicly-owned utilities currently are not required to meet the state’s energy efficiency, renewables and environmental standards.

NOW, THEREFORE, BE IT

RESOLVED, The PUC directs the Executive Director to forward this Policy Statement and a report on the deliberations of the PUC on this matter to the CEC;

RESOLVED, The PUC directs Staff and its General Counsel to investigate adoption by the PUC of a greenhouse gas emissions performance standard for IOU procurement that is no higher than the GHG emissions levels of a combined-cycle natural gas turbine for all procurement contracts that exceed three years in length and for all new IOU owned generation. In the case of coal-fired generation, the capacity to capture and store carbon dioxide safely and inexpensively is necessary to meeting the standard;

RESOLVED, The PUC directs Staff and its General Counsel to promote and advocate for policies at the state and federal levels that encourage the development of environmentally sound resources with an emphasis on reductions in GHG emissions;

RESOLVED, That the PUC authorizes Staff to investigate the integration of a GHG performance standard into the PUC’s existing policies regarding GHG emissions including the environmental adder, the procurement incentives framework, as well as the work of the Governor’s Climate Action Team and the CEC. A critical step in this process will be to collect specific fuel type information for IOU procurement at a level of detail that will allow the State to ensure that the performance standard is met;

RESOLVED, The PUC directs Staff, working with the CEC, to investigate offset policies that are designed to ensure that the Governor's GHG goals are achieved. In addition, the PUC directs Staff to consider whether an offset policy would eliminate the important benefit of mitigating financial risk to California consumers of future GHG regulation and also significantly dampen the market signal for investment in new and improved technologies for clean generation. Finally, any offset policy must include a reliable and enforceable system of tracking emissions reductions;

RESOLVED, In order to ensure consistency, the PUC calls on the publicly-owned utilities to reduce emissions that contribute to global warming by adopting energy efficiency and renewables goals that are comparable to the standards that the IOUs are required to meet under state law and regulation, as well as adopting an equivalent GHG performance standard.