Local Government
SUSTAINABLE ENERGY
Coalition

P.O. Box 3629 · Oakland · California · 94609
510/459-0667

MEMORANDUM

TO: Members of the Local Government Sustainable Energy Coalition,
Cap and Trade Subgroup

FROM: Jennifer K. Berg

SUBJECT: Update on CPUC Rulemaking 11-03-012

DATE: September 6, 2011

Here is an update on the California Public Utilities Commission ("CPUC") cap-and trade proceeding regarding the allowance revenues and costs.

On September 1, Commissioner Peevey issued the scoping memo and ruling in this proceeding. At the outset, several procedural matters were disposed of:

1. This proceeding will remain separate from the other rulemaking regarding greenhouse gas ("GHG") risk management, procurement and compliance costs, and it has been categorized as "ratesetting";
2. The proceeding is now bifurcated: track one addresses the allocation of revenues from the sale of allowances allocated to the electric utilities, and track two, which will commence in January 2012, addresses the allocation of revenues from the sale of Low Carbon Fuel Standard credits. (There is a possible third track related to procurement of GHG compliance products and possible revenues from the auction of GHG allowances for the **gas** utilities should the Air Resources Board adopt a similar approach as was done with the electrical; however, since ARB has yet to release regulations related to that sector under cap-and-trade, it is premature to address those issues.)

The basic questions to be addressed in the proceeding remain unchanged:

How should the investor-owned utilities ("IOUs") allocate revenues from auction of GHG emission allowances?

- What portion should be directly returned to customers?
- To the extent revenues are returned to customers, how should value be returned?
- To the degree that revenue should be used for other purposes, how specifically should they be used, beyond broad categories of potential use?

The order reiterated the seven policy objectives parties should consider in their comments, but made explicitly clear that these are not exclusive.[1]

[1] The seven policy objectives are: (1) preserve the carbon price signal; (2) prevent economic leakage; (3) distribute revenues equitably recognizing public asset nature of atmosphere; (4) reduce adverse impact on low income

The proposals must now contain:

- a ranking of the policy objectives along with an explanation;
- a detailed description of the proposed uses of the revenue together with a table showing the percentage of revenues that should be allocated to each element of the proposal;
- if the proposals include new programs or allocation of revenues to further existing programs, a detailed explanation regarding how the funds would be used;
- an explanation as to the likely rate impact on customer class and how the proposal meets previous guidance set forth by ARB and CPUC.

The IOUs were ordered to prepare a joint rate impact model in consultation with the CPUC Energy Division and other stakeholders. The model shall, at a minimum, include the IOUs' annual GHG compliance costs; the annual revenue value being returned to the IOUs; the share of revenue value being returned to each category of customer, and the rate component(s) through which any revenue being returned to customers should flow. This model shall be sent to all parties by September 27th so that it may be considered in the comments due on October 5th.

I have received some thoughtful suggestions from Cal about points to cover in our comments. Please feel free to send along any preliminary thoughts. I will have a draft of the proposal to you well in advance of the October 5th deadline.

As always, please do not hesitate to contact me with any questions or concerns.

Jenny Berg

(510) 531-6044

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households; (5) correct market failures leading to underinvestment in carbon mitigation activities; (6) maintain competitive neutrality across load serving entities; and (7) administrative simplicity.