BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Promote Policy and Program Coordination and Integration in Electric Utility Resource Planning.	Rulemaking 04-04-003 (Filed April 1, 2004)

PRE-WORKSHOP OPENING COMMENTS OF THE UTILITY REFORM NETWORK ON STAFF'S PROPOSED PROCUREMENT INCENTIVE FRAMEWORK

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I. Introduction

On April 6, 2004, the Commission issued its *Order Instituting Rulemaking to Promote Policy and program Coordination and Integration in Electric Utility Resource Planning* ("OIR"). To facilitate the process of developing a procurement incentive framework, the Commission appended to its OIR a concept paper prepared by Staff entitled "An Incentive Framework For Utility Procurement of Energy Resources Modeled After Cap-and-Trade Principles of the Sky Trust." (See OIR, Appendix B; referred to herein as "Appendix B," the "Proposal" or for clarity where needed as the "Original Proposal"). Administrative Law Judge ("ALJ") Gottstein issued a ruling on November 23, 2004, scheduling workshops on the Proposal and alternatives, and calling for pre-workshop opening and reply comments from interested parties by February 11, 2005, and February 25, 2005, respectively. By electronic mail on February 4, 2005, ALJ Gottstein distributed a second document for parties to address in pre-workshop comments, entitled "Addendum to the Sky Trust Proposal: Alternative Approaches to Elements of the Policy Framework." TURN hereby files these pre-workshop opening comments on the procurement incentive framework proposed by Staff. [1]

Appendix B and the Addendum set out one model for a cap-and-trade system for greenhouse gas ("GHG") and certain alternatives to that model, and allude to the additional establishment of financial incentives for the IOUs that relate in various ways to the proposed cap-and-trade system. The proposed system is variously described as applying to the resource

[1] TURN sought the expertise of Synapse Energy Economics, Inc. in reviewing the Proposal and alternatives presented by Staff. We rely heavily on the analysis of William Steinhurst and Bruce Biewald of Synapse Energy in preparing these comments.

selection and management the state's electric IOUs, to the natural gas distribution companies, or both.

The Proposal has two parts. First, it describes, at a very conceptual level, a system whereby the California Public Utilities Commission ("PUC") would set annual targets for the reduction of GHGs and offer at auction California-specific CO2 emission allowances ("Allowances") in that amount. These emission targets would be derived as a consequence of renewable generation and energy efficiency targets set by the PUC. App. B at 2. Electric (and possibly) natural gas IOUs would then be required to purchase and hold Allowances to cover the actual CO2 emissions from its fossil fuel generation and power purchases from fossil fuel generation for each time period.[2] IOUs would also be expected to carry out the "full range" of their electric power and natural gas procurement practices by including Allowance costs along with other resource costs and reflected those costs in all planning and procurement decisions, as well as in the avoided costs used in efficiency and renewable energy evaluations. Revenues from the auction of Allowances would be "recycled" by reducing the wires charges imposed for energy efficiency programs. App. B at 2.

Second, the Proposal briefly alludes to the establishment of some system of financial incentives for IOUs to achieve the PUC's targets "established for specific types of preferred resources (e.g., energy efficiency and renewable resources)" and to minimize long-term portfolio costs, including the cost of Allowances. App. B at 2-3.

Stated goals for the Proposal include encouraging aggressive pursuit of cost-effective energy efficiency and least-cost/best-fit renewable resources, capping the total amount of CO2 emissions by the IOUs as a group, establishing a market mechanism for efficiently achieving

[2] The Proposal is intended to apply to Pacific Gas and Electric Company, San Diego Gas & Electric Company, Southern California Edison Company and Southern California Gas Company. App B at 1.

those purposes, and providing "monetary incentives/penalties" to motivate IOUs to factor the full cost of resource options (including allowances) into all procurement decisions and to do so at least cost. App. B at 2-3.

TURN submits that the combination of a cap-and-trade system with revenue recycling of the type offered in the Proposal *could* be a powerful means of addressing GHG emissions at least cost *if* designed and implemented appropriately. We have certain initial concerns and questions about the cap-and-trade specifics which will be discussed below. Because the Proposal's discussion of financial incentives for IOUs is so undeveloped as to make it impossible to comment about specifics at this time, we will offer only certain preliminary observations on this component of the Proposal.

II. Comments on the Cap-and-Trade with Revenue Recycling Proposal

A. The Cap-and-Trade Framework Does Not Necessarily Provide Incentives.

The Proposal refers several times to this system as providing "strong incentives" to IOUs to do the "right thing." See, for example, App. B at 4. While we believe that the proposed system will send much improved signals to IOUs and would *enable* them to make the "right" resource planning and implementation decisions, the system does not in itself provide incentives. IOUs could still perform inadequate analysis, make biased or incorrect decisions, or fail to maximize renewable energy or energy efficiency resources. They could also fail to implement those resource decisions (including decisions about purchases of Allowances) in a least cost manner. In sum, the Proposal may be viewed as an important facilitator of least cost GHG emission control, but not as an incentive, *per se*, for IOUs to achieve least cost GHG emission control.

B. The Proposal Is Not Necessarily Cost-Neutral For Customers.

The Proposal asserts that implementation of this system will not increase costs to utilities or consumers. For example, the Proposal states, "this recycling of ratepayer expenditures results in a procurement incentive framework that *does not increase utility revenue requirements, customers' rates or bills*. App. B at 6, emph. in original. This statement would be correct only if the number of Allowances issued for auction were equal to or greater than the unconstrained carbon emissions that would occur without the Proposal or if the least-cost low carbon resources cost the same or less than the fossil fuel resources being displaced. Furthermore, to the extent that the Proposal results in acquisition of more energy efficiency than would otherwise be procured, customer rates might increase somewhat, at least in the near term. Nevertheless, we do agree that the Proposal would not necessarily create any revenue requirement increases beyond those that would be necessary to achieve the target emission reductions, aside from the net effect of the cost of administering the proposed system. Indeed, we believe that *properly implemented*, the Proposal is likely to result in the least-cost attainment of those emission reductions.

C. The "Trust" Approach Presents Several Serious Problems.

The Proposal indicates that "the PUC, or a Trust set up by the PUC for this purpose, would issue the allowances at a price that is market-based (e.g., established through auction), on an annual basis." App. B at 2. Elsewhere, it is stated that "the framework presented in this paper would have the CPUC establish an 'Energy Efficiency Trust' to conduct the auction. . . . The Energy Efficiency Trust would establish a bidding process for tradeable allowances—that is, the right to procure carbon-based energy up to the annual procurement limits established by the CPUC. The IOUs would bid for these allowances with ratepayer funds." App. B at 8.

TURN is concerned about several issues relating to the Trust and its activities. First, the ambiguity about whether the auction and revenue recycling mechanism would be operated by the PUC or a Trust needs to be resolved. Second, the routing of funds needs to be established in a manner that safeguards the ratepayer monies involved. (Below, we discuss the potential amount of those funds.) If IOUs are to simply offset the payments against public benefits charge needs, careful scrutiny and escrow arrangements would be justified. If a separate trust is used, its governance, accountability, authority and operating rules need to be determined. In either case, the amount of dollars involved is sufficiently large that great care should be taken to safeguard them, for example, by establishing a bankruptcy remote entity. We would also suggest that the prospects for such a Trust be evaluated in the light of the grounds for recent decisions rejecting an independent administrator for energy efficiency in California. The relationship between the PUC and the entity handling the Allowance auction and the funds involved should be clearly spelled out and provide the appropriate level of guidance and security.

D. The Auction Would Have to Be Carefully Designed to Avoid Serious Pitfalls.

The Proposal appears to suggest that the Trust created by the PUC would conduct one annual auction for Allowances, and that the only customers in that auction would be the IOUs, but that Allowances would be tradeable among the IOUs thereafter. If this model is adopted, there would still remain numerous important auction design questions. Examples include the date of the auction relative to the time period for which the Allowances are being issued, what year should be used for allowances, end of year grace periods for making up shortfalls (and penalties for failure to do so), the type of auction, auction mechanics, and the like.

Perhaps more challenging are questions relating to the basic auction concept. For example: Should there be a secondary market or would post-auction trading of Allowances be

solely bilateral among the IOUs? Should there be a forward market? Should non-utility entities be allowed to offer hedges, options or other instruments and, if so, may they own Allowances for those or other purposes? Experience in many auction settings has shown that careful design can greatly enhance or hinder development of efficient pricing, as well as impacting the administrative costs and burdens involved. It could be worthwhile to investigate the advantages and disadvantages of integrating California's emissions trading system with other systems for operating efficiencies and for access to broader market participation.

Finally, auctions raise questions of market power monitoring and mitigation. The issue of whether a market with so few buyers and only one product would work well should be explored.

E. The Proposal Underestimates The Amount of Money Potentially Involved in Relying on Recycling to Protect Customers From Net Rate Increases.

Policies that price carbon dioxide emissions at levels that will be effective in changing behavior are usually expected to generate large amounts of revenue. For example, a recent (2004) California Public Utility Commission decision found, with regard to the financial risk associated with carbon emissions, that

> Consistent with established Commission policy and the positions of several parties, including PG&E, we adopt a range of values to explicitly account for the financial risk associated with GHG emissions of $ 8 to $25 per ton of CO2, to be used in the evaluation of fossil generation bids. This range is taken from information in the present record, and is consistent with actions undertaken by other electric utilities across the country. Each IOU will select a value within the adopted range and respond to party comment on the value, before employing the adder in analyzing RFO responses. The GHG value will be added to the prices bid in future RFOs, and will be used to develop a more accurate price comparison between and among fossil, renewable and demand-side bids. (Rulemaking 04-04-003, D.04-12-048, p. 152).

With annual California electric power sector carbon dioxide emissions of approximately 143 million tons of CO2,[3] an auction price of $8 per ton would yield $1.1 billion per year in revenue and the auction price of $25 per ton would yield $3.6 billion per year.[4]

These illustrative calculations indicate that the policy will potentially involve very large amounts of money, the management of which must be thoughtfully dealt with. Note that this does not necessarily mean that the policy itself will be costly, but that the Proposal appears to over-simplify the issue of rate impacts by relying on energy efficiency recycling. For example, under the Proposal, the costs and the revenues would *both* be primarily borne by customers. Thus, the PUC would need to carefully consider the *net* impacts on rates, as the price of allowances may cost customers far more than the revenues required to achieve the energy efficiency targets adopted by the PUC. The IOUs can not cost-effectively spend an unlimited amount of money on energy efficiency because the energy efficiency targets are already tied to economically achievable energy efficiency potentials in each IOU service territories. Another way of expressing this problem would be that the potential rate reductions derived from the displacement of PGC and energy efficiency procurement surcharge funds through recycling may well be exceeded by the rate increase required to fund Allowances.

[3] The *Inventory of California Greenhouse Gas Emissions and Sinks: 1990 to 1999*, California Energy Commission Staff Report, November 2002, puts the 1999 carbon dioxide emissions from electric power generation inside the state at 56.7 million metric tonnes of CO2 (page 27) and the carbon dioxide emissions associated with imported electric power at 73.0 million metric tonnes of CO2 (page 179). At 1.1 metric tonnes per short ton, this amounts to 143 million short tons of CO2.

[4] The low end value ($8/ton) is in range of current trading in the European carbon market (EU ETS). Over the last 6 months, carbon trades there have ranged between 6.75 euros ($8.62) to just over 13 euros ($16.61) per ton CO2. (Source: Andrew, "Point Carbon to launch volume-wieghted EU ETS index," Carbon Market Europe, Point Carbon, January 28, 2005.) The high end value ($25/ton) is representative of values determined by respected modelers (EIA, MIT, Tellus, etc.).

F. The Proposal Raises Serious Concerns Regarding IOU Recovery of Implementation Costs.

Another group of serious concerns, in our view, relates to cost recovery by IOUs for actions to implement the Proposal. First, what would ensure that utilities are frugal in their bidding and does it matter whether they are or are not? If it does not matter, how can we rely on the Proposal to attain its stated goals and make a difference? Second, if there were only one annual auction for Allowances without any secondary markets, there will be little fluidity and transparency. In any event, with only 3-4 purchasers (which appears to be a foregone conclusion if there are no secondary markets) the potential for manipulation, collusion, gaming, and monopsony behavior is a matter for serious concern. The Proposal's authors admit that prospect "warrants careful consideration." Third, will there be any prudence review? If excess Allowances are purchased by one IOU will outlays for that purpose be used and useful? Would revenues from selling those excess Allowances to other IOUs benefit ratepayers? And, last, how will costs outlays for Allowance purchases be reflected in utility rates and when?

The authors of the Proposal hope to create a motivation for an IOU to bid for allowances with the ratepayers' bottom line in mind. "However, in general terms, the utility's overall performance in energy procurement could be evaluated based on achieving the targets established for specific types of preferred resources (e.g., energy efficiency and renewable resources) as well as on performance targets established for long-term portfolio costs—including the cost of allowances. Monetary incentives/penalties could be structured based on these same parameters, coupled with periodic independent audits." App. B at 14. We would caution against proceeding on the Proposal without a clear understanding of how that outcome will be assured.

The Proposal suggests that the "dollar cost to the utility for the right to purchase or produce carbon-based resources to meet customer needs" would be "expressed in dollars per

kilowatt hour and dollars per therm, and added to all other costs of carbon-based energy procurement, for daily dispatch decisions" and other decisions. App. B at 8. While this is an interesting concept, we would hope to see the feasibility and effectiveness of dispatch based on these costs explored. For example, how often would the Allowance value used in dispatch change? If load changes unexpectedly, would the price of emissions adjust accordingly? How quickly? How could utilities respond to such changes?

G. The Proposal Raises Additional Questions That Must Be Addressed Before The Commission Determines Whether or Not to Adopt the Proposal or Some Variation Thereof.

The Proposal raises the issue of assigning to a "blended purchase" of power the appropriate Allowance requirement. There are actually a number of complex questions related to this one. One is the issue of imputing carbon emissions to system power purchases (perhaps this is what was meant by "blended purchases") and also to imports. Will power imported from outside the state support technically a plant specific or contract specific imputation of emissions? If not, should IOUs use the average or marginal emissions per MWh of the sending power pool or something else? How will carbon emissions of power exported from California be treated, if at all?

There are also potential hard questions relating to offsets, should they be allowed in the system. How will sequestration and other offsets be treated? If offsets are permitted to used by IOUs in accounting for carbon emissions, will out of state offsets or offsets in other countries be allowed? At this point, we will only state that, if offsets are allowed, TURN would prefer allowing only offsets created in California and only those from energy efficiency exceeding the targets adopted by the PUC. Another question would be whether and under what rules biomass generation would qualify for zero carbon treatment? Lastly, it seems that nuclear power needs to

be accounted for in some way. If it is not, the Proposal will create an incentive for the continued use of existing plants and construction of new ones. The Proposal recognizes the difficulty in properly accounting for the non-carbon environmental impacts and risks of nuclear generation.

H. The Alternatives Briefly Discussed in Appendix B Do Not Appear to Be Superior to the Proposal Itself.

The Proposal indicates that "dialog [in the workshops] should include the consideration of alternative approaches to the cap-and-trade framework proposed in the paper. Some alternatives that come to mind are: (1) a pure "cap" approach to fossil fuel procurement, without any allowances (2) a CO2 per energy production unit (kWh/therm) standard for the IOUs entire procurement portfolio, and (3) an avoided cost standard for all resource procurement that incorporates CO2 emission costs, but does not establish those costs through an IOU cap-and-trade auction. App. B at 20.

It is not clear to us that any of these approaches are superior to the Original Proposal. A "pure cap" approach if implemented for each IOU could prevent efficient allocation of emission rights between them and increase compliance cost, as could a per unit of energy standard. If such a cap or standard were applied to the industry as a whole, some mechanism would be needed for allocation and reallocation among the IOUs, and we believe, at this point, that a system with tradable emission allowances would be the most economically efficient way to do that, leaving the system essentially the same as the Original Proposal. The third alternative, an avoided cost standard for all resource procurement without a cap-and-trade auction, presents an interesting possibility. But as it is not clearly defined in the Proposal, we defer our consideration of its merits until specifics are discussed at the workshop.

I. The Proposal Could Yield A Benefit to Customers Not Discussed By Staff.

Finally, we note that the Proposal, to the extent that it actually reduces fossil fuel consumption, would yield a benefit not discussed in any of the materials issued so far. Such a reduction in demand would lead to a corresponding reduction in wholesale market price of fossil fuels in California and could result in significant savings to consumers.[5]

III. Comments on Utility Incentives

TURN strongly encourages the PUC to proceed with great caution in designing and implementing a procurement incentive framework, so as to avoid the problems that arise when one attempts to do too much at once. If the PUC elects to adopt a cap-and-trade system such as that proposed by Staff, the PUC should address additional financial incentives only *after* the cap-and-trade system is working in a reasonable manner. As we have highlighted above, the PUC has many issues to resolve before implementing a smart cap-and-trade system, and likely many other kinks to resolve once such a system is operational.

Designing financial incentives that are balanced and fair to ratepayers is an incredibly complex task. Based on past experience at the PUC, TURN has little confidence that incentives can be designed and implemented in a manner that protects ratepayers from IOU gaming or other unbalanced and unfair outcomes. While we recognize that a cap-and-trade system alone will not sufficiently motivate the desired IOU procurement decisions, we recommend that the PUC subject utility actions taken to comply with any cap-and-trade approach to a traditional reasonableness review, perhaps augmented with some up-front approvals designed to protect ratepayers from imprudent choices and excessive costs, rather than rely on financial incentives.

[5] See, for example, American Council for an Energy-Efficient Economy (ACEEE). 2003. *Natural Gas Price Effects of Energy Efficiency and Renewable Energy Practices and Policies*. Report Number E032. Washington, D.C.: American Council for an Energy-Efficient Economy.

Yet, if the PUC ultimately elects to offer financial incentives in connection with a cap-and-trade system, TURN recommends that the PUC keep several points in mind. First, there must be both risks and rewards, not just as a matter for fairness, but because this can reduce the cost to ratepayers for the incentive system. The PUC should also ensure that any rewards flow only for exceptional performance, and not merely for performing the IOU's basic obligation for prudent and efficient management or for meeting regulatory targets. Also, to the extent that there are rewards offered to utilities as incentives for producing benefits to customers and to society above those required by the PUC, those rewards should be reasonable in relation to the magnitude of the benefits.

Another ratemaking issue related to incentives is the manner in which expenses for permits and cost increases for power relate to the treatment of costs under the AB 57 cost recovery provisions. If not carefully addressed, incentives could be diluted where such costs merely flow through these mechanisms. This complicated issue warrants the PUC's attention to ensure that any procurement incentive framework truly encourages the desired outcomes.

Lastly, the PUC has stated its intent to require other incentive mechanisms to be consistent with any adopted in this proceeding. OIR at 17. Should this proceeding adopt financial incentives, we would support that intention and suggest that other incentives may not be needed in addition to any adopted here.

IV. Comments on Staff Alternatives

On February 3, 2005, PUC Staff issued a short discussion of certain alternatives to the Original Proposal. *Addendum to the Sky Trust Proposal: Alternative Approaches to Elements of the Policy Framework*, generally. While we look forward to reviewing others' comments on

these alternatives, at this time, we find only one of them to provide a material improvement over the Original Proposal.

Alternative #1

Rather than expressing procurement limits under Sky Trust as caps on fossil generation, the framework could emphasize limits on GHG output per MWh of electricity service – a "GHG budget" for the IOUs as a whole.

We believe that a tons/MWh standard does not do any better at differentiating among fossil generation types than a total tons/year cap. A tons/MWh standard would not allow for sequestration any more or less readily than the original proposal, nor do we see why it would require any more or less analysis that the Original Proposal. In fact, the Original proposal is a GHG budget, while this proposal might appear to argue for something different although that is not clear, unless it means allowing any amount of GHG emissions, depending on actual MWh sales, so long as emission allowances for the tons/MWh are on hand. If that's what is meant, the approach fails to implement a limit on emissions, as set out in the goal statement for the original proposal.

Alternative #2

Renewable energy programs are also supported by Public Goods Charge collections. The Sky Trust funds "recycling" process could also include outlays to support these programs.

Recycling some of the emission allowance auction revenues to reduce the PGC for renewables is potentially more complicated than energy efficiency recycling. For instance, if a "REC" trading system is implemented in California, the Commission would be required to design and oversee the interface of two complex trading systems, the REC system and the GHG cap-and-trade system. We are not convinced that adding renewables to the recycling process would be prudent, though are interested in discussing this issue further with other parties.

Alternative #3

> Rather than auctioning the entire amount of permits required to cover the total GHG emissions of the IOUs, the amount of permits representing each IOU's individual GHG goal could simply be allocated to the IOU. These goals would be ratcheted down on a regular, perhaps annual, basis, as envisioned by the present Sky Trust proposal. An auction would be conducted to cover permits in excess of the initial IOU GHG goal-based allocations, if the IOUs are unable to meet their GHG targets, with revenue from these auctions used to replace or supplement present funding via the PGC.

The "Advantages" appears to suggest that in addition to allocating permits to IOUs, this allocation would be allocated on some basis other than pro rata, perhaps more to those with initially carbon-heavy portfolios. While this could soften the blow for carbon-heavier utilities (an inter-utility equity issue), it does not improve the effectiveness of the system.

Moreover, this alternative would eliminate the incentives for IOUs to take action to do better than their targets, and would generally reduce their incentives to manage their emissions for several reasons. The alternative is unclear about how many permits would be auctioned, particularly whether the number of available permits beyond the initial goal-based allocations would equal the excess need, or be short of this need. If the former were the case, the system would be undermined by the absence of the "cap" aspect of the Original Proposal. On the other hand, if fewer excess permits were available than the actual overage, the benefits would likewise be suspect for lack of any apparent penalty for not having the right number of permits (a problem that also exists with the Original Proposal, as discussed above). Similarly, under either scenario, the auction would collapse if only one IOU exceeded its quota because no other bidders would impact the price of permits. And, this potential for inefficient bidding would remain even if multiple IOUs bid for excess permits or risked a penalty for exceeding their allocation, as the bids would come in under the penalty so long as there existed no statewide cap.

Alternative #4

> The Commission could establish permit allocation rules that allow the IOU to retain ownership of any unused permits at the conclusion of a procurement period. For example, at the end of each year (or other scheduled interval) the Commission could perform a true-up comparing IOU performance, in terms of GHG emissions, with the amount of permits that IOU was granted and/or purchased via auction. Any excess permits, representing avoided GHG emissions beyond the annual goals set by the Commission, could be the property of the IOU, possibly to be banked for future years or sold to other entities inside or outside of California.

This is a valuable refinement of the original proposal. As stated, the ability to bank permits for later use or for trading would reward success by the IOUs, and would benefit ratepayers (assuming this alternative means that ratepayers would own permits, or share their benefits). In fact, failure to do so would tend to discourage full efforts to reduce GHG emissions for fear of having bought too many allowances. Permit tracking for this purpose would be an easily manageable enhancement to any permit issuance system. It is also not clear that this alternative would create any form of gaming in the establishment of targets; if there is a possibility to do so, it would be a problem equally with and without this alternative. A ratepayer cost-minimization requirement or alternative is needed whether this alternative is adopted or not.

Alternative #5

> Rather than establishing specific goals for energy resources that do not emit GHGs (e.g., energy efficiency and renewables), the Commission could instead direct the IOUs to pursue the least-cost mix of energy options that meet established GHG targets, and are compatible with the specifics of each IOU's resource portfolio and service territory. Financial incentives would be awarded to the IOUs if their portfolio costs are lower than pre-specified per kWh and per therm cost thresholds (and penalties imposed if they exceed those thresholds), as long as the portfolio meets or exceeds the GHG targets.

This is actually two alternatives. The first part is similar to Alternative #1, a GHG budget. See discussion above on that point. The second part provides for an asymmetric financial incentive to IOUs for beating a pre-established unit cost of energy so long as the GHG emissions target is met. While we do not support asymmetric financial incentives and would wish to see

financial rewards made available only for materially superior performance if at all, the concept does at least begin to address our concern about ensuring that utilities deliver on the Proposal's emission goals in the least cost manner.

If the alternative means to suggest that this system should replace the setting of specific EE and renewables targets, that may be feasible once the proposed system is seen to be effective and durable, but that change is certainly not necessary or advisable now. For example, the 1% increase per year RPS requirement may exceed or be exceeded by the amount of renewable generation in an IOU's portfolio (as it is implemented to comply with the original proposal). If the latter, there is no conflict. If the former, the IOU could still be required to meet the 1% target as a prior constraint on its portfolio management without conflicting with the original proposal. In that case, the combination of the regulatory targets and the cap-and-trade system would produce a GHG reduction in excess of that generated by the renewables target alone – an improvement in terms of the PUC's GHG goals. It should be kept in mind that the original proposal will result in portfolio management choices far wider in scope than the quantity of renewables acquired.

V. Conclusion

The Proposal sets out the beginning of a system for *guiding* IOU resource decisions in a consistent manner across all resource types and for *enabling* IOUs to identify and select the most cost-effective mechanisms for achieving GHG emission targets. Accompanied by suitable PUC oversight of performance, perhaps with some form of just and reasonable financial incentives, it is our preliminary assessment that the Proposal *could* enhance efficient and environmentally sound resource acquisition. On a preliminary basis, we conclude that Proposal, properly fleshed out and implemented, would "promote better-informed, more accountable utility planning" in

accordance with PUC's Order opening this Rulemaking. OIR at 11. However, given how few details have been revealed and how little discussion has taken place, we would reserve the option to react to others' filings and the workshop discussions.

At this time, we have identified a number of questions and concerns that should be explored before committing to the Proposal. Those questions and concerns have been set out above. Further, we would, at this time and subject to further discussion, support the supplemental concept presented by Staff of banking excess Allowances from year to year and the option to sell them. Finally, we recommend that the Commission continue to rely on renewables and energy efficiency targets as regulatory requirements, while separately and directly establishing a carbon budget (rather than doing so indirectly as an outcome of establishing renewable energy and energy efficiency targets). A carbon budget tied to already existing regulatory requirements for energy efficiency and renewables could amount to little more than shuffling money around without necessarily furthering the PUC's GHG reduction goals.

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