



## **DRA**

*Division of Ratepayer Advocates  
California Public Utilities Commission*

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**Dana Appling, Director**

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Dr. Lawrence Goulder  
Chair, Economic Allocation Advisory Committee  
California Air Resources Board  
1001 I Street  
Sacramento, CA, 95814

Re: Division of Ratepayer Advocates' Comments to the Economic Advisory Allocation Committee.

Dear Dr. Goulder,

The Division Ratepayer Advocates (DRA) is located within the California Public Utilities Commission and advocates on behalf of the interests of public utility customers and subscribers within the jurisdiction of the commission. The goal of the division is to obtain the lowest possible rate for service consistent with reliable and safe service levels. For revenue allocation and rate design matters, the division primarily considers the interests of residential and small commercial customers.

DRA appreciates this opportunity to submit comments to the Economic Allocation Advisory Committee ("EAAC") regarding its report to the California Air Resources Board ("ARB"). DRA supports the EAAC's role to bring objective and high quality economic analysis into the achievement of emission reduction goals. DRA supports a cap and trade allowance allocation design that will facilitate compliance with the state's greenhouse gas (GHG) emission requirements at the lowest possible cost while taking into account the economic burdens of cap-and-trade.

After summarizing the recommendations of the 2008 CPUC GHG policy decision, this letter states support for an initial allowance allocation of free allowances to the electric sector as well as for the use of auction revenue within the electric sector in ways consistent with purposes related to Assembly Bill AB 32. DRA also concludes that the uses of allowance value returned to the electric sector are likely to be both publicly transparent and consistent with any future restrictions that might arise from the Sinclair Paint decision.

In October 2008, the CPUC issued Decision 08-10-037, the "Final Opinion on Greenhouse Gas Regulatory Strategies." This decision recommended that emission

allowances be made available in a phased approach that allows parties to adjust their portfolios over time, minimizes wealth transfers and ultimately has environmental integrity. Specifically, the decision recommended that initially 20% of the allowances be auctioned and 80% distributed free to electricity deliverers based on a three year average of their historical emissions. The decision also recommended a quick four year transition to a full (100%) auction of allowances so that any windfall profits would be short-term and declining in nature while entities would be encouraged to move toward lower carbon sources of generation.

In addressing auction revenue within the electricity sector, the decision recommended that auction revenues be used for purposes related to AB 32. This recommendation furthers the goals of AB 32 and avoids questions that might be raised about the legality of the use of auction revenues for other purposes. Auction revenues returned to the electric sector should be targeted at reducing GHG emissions and providing ratepayer bill relief without muting price signals to reduce electricity consumption. Therefore, DRA recommends that auction revenues be returned to ratepayers of the electric utilities and/or that the revenues be used to finance investments in energy efficiency, renewable energy or new technologies that further AB 32 goals.

One concern expressed at the November 4 EAAC meeting was that the use of auction revenue would be more visible to the public than the use of allowance value through the issuance of free permits. The implication of this was that the provision of allowance value should be tilted toward the use of auction revenue rather than through free allowance allocation during a short transition period to a 100% auction. In the case of the electric sector, however, the deliverers and their customers are publicly regulated and the CPUC GHG policy decision recommends that any provision of allowance value (through free permits or auction revenues) be used to benefit ratepayers consistent with the goals of AB 32. Given this context the use of free allowance allocation for the electric sector during a short transition period should allow for a reasonably transparent public process that addresses the goals of AB 32.

Another concern at the November 4 meeting was about the Sinclair Paint court decision and its implications for the legal uses of allowance value from free allowance allocation and auction revenues. While there is currently uncertainty about the precise implications of the Sinclair Paint decision, it seems likely that uses of allowance value consistent with AB 32 is acceptable. If allowances are allocated to the electric sector during a transition period, or auction revenues are returned to utilities at a later time, the corresponding revenues should be used in ways consistent with AB 32.

In conclusion, DRA supports the recommendations of the CPUC's GHG policy decision regarding free allowance allocation to the electric sector during a brief transition to a 100% auction and the uses of auction revenues for purposes consistent with AB32. DRA also believes that the uses of allowance value within the electric sector can be done in a publicly transparent manner while being consistent with any future restrictions that might arise from the Sinclair Paint decision.

Best Regards,

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