



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 -2828

**Re: Division of Ratepayer Advocates' Comments on the
Draft Recommendations of the EAAC to the ARB**

Dear Dr. Goulder:

The Division of Ratepayer Advocates (DRA) is an independent division of the California Public Utilities Commission (CPUC) created by state legislation. DRA's mission is to obtain the lowest possible consumer rates for utility services consistent with safe and reliable service. The Division of Ratepayer Advocates (DRA) appreciates the opportunity to submit comments to the Economic Allocation Advisory Committee (EAAC) regarding the draft recommendations dated January 7, 2010.

DRA is also concerned that EAAC's draft recommendations suggest an auction mechanism that does not adequately:

- manage price volatility,
- minimize ratepayer impacts,
- ensure fairness and transparency,
- minimize transaction costs, and
- prevent market manipulation.

DRA is concerned regarding the EAAC recommendations favoring 100% auction of emissions allowances for the utility sector. DRA believes that if utilities are required to purchase 100% of their required allowances in 2012, this may:

2. Result in an undue burden of the costs of greenhouse gas mitigation and emissions allowance costs to be borne by electric ratepayers. The electricity sector is slated to reduce greenhouse gas emissions by 40% under the ARB Scoping Memo. Many of those reductions are due to mandated programs. If public utilities are also required to purchase

100% of the allowances associated with carbon emissions in 2012, DRA is concerned that it will result in rate shock that will affect residential and small business electricity customers, which are DRA's constituency in this matter.

3. Result in uneconomic electricity price levels in California, which already has one of the highest rates in the country. For the utility sector, ARB cannot assume that higher prices are a "more accurate" price signal for customers, since these prices are not determined in a competitive market.
4. Recreate the conditions under which the California energy crisis occurred by subjecting an enormous amount of California's economy to a market mechanism before it can be tested, safeguards can be established and market monitoring fine-tuned to protect against market failures. Market failure could result in great volatility in emissions allowance prices, which would harm California's already struggling economy.

The California energy crisis proved that even well thought-out market mechanisms can be circumvented to the detriment of the California economy. The proposed cap-and-trade program if implemented as proposed in the draft recommendations could result in even more disastrous consequences.

DRA strongly recommends that the ARB begin the cap-and-trade program with only 25% of allowances allocated through an auction. If public utilities must purchase all the emissions allowances they require, then all utility auction revenue must be returned to utility ratepayers to help offset the price impacts of GHG reductions. Some possible examples:

- Cost-effective low-income weatherization and other energy efficiency programs;
- Using auction revenue to help fund above-market renewable energy purchases or carbon capture technologies which would otherwise increase ratepayer costs;
- Cash dividend to utility end-users.

DRA strongly opposes allowing auction value to flow into General Fund or to be returned through the tax system, because this would not return revenue to the impacted parties and may constitute a "tax." Each utility's customers will be impacted differently by the cap-and-trade program, depending upon the utility's unique portfolio of resources. Ideally, revenue should be returned to the ratepayers of the specific utility to mitigate ratepayer bill impacts.

Best Regards,

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