



Talking Points for IEP Conference Keynote Address
South Lake Tahoe
September 24th, 11:15-11:45 am

Introduction

Thank you very much for inviting me to speak at your annual meeting.

Before I begin, I would like to congratulate Jan Smutny-Jones for his 20 year anniversary with IEP. Your organization has made significant contributions to California energy markets, including CPUC proceedings, and I applaud you for your accomplishments.

Thanks for the opportunity to explain my regulatory philosophy to you. If you know my approach to regulation, this dialogue will enable us to develop constructive approaches to the issues that are bound to arise during my term.

Regulatory Philosophy

The most compelling regulatory philosophies arise from the life experiences of the regulator. In most cases, they prove more reliable than interests in new ideas or new approaches.

That is the case for me. I formed my regulatory philosophy through my practice of securities and banking laws and apply the lessons of my experiences to this new regulatory setting.

My experience is that good regulatory policies are both pro-consumer and pro-business. In the publicly traded market for securities, for example, an investor should not buy a security without the full disclosures and the policing or supervision of investment professionals that regulation provides. Moreover, the investor can choose from a range of securities that match his investment horizon and tolerance for risk. I emphasize publicly traded securities because this is the basis for the Securities Act and the Exchange Act, which merge the notion of disclosure and supervision.

To function, energy markets need many of the same principles. I believe that information and choice of opportunities in the electric power sector holds a “real” opportunity to empower

consumers and create markets. In particular, consumer education about conservation and reducing energy use critically empowers consumers to avoid the use of energy when other practical options exist. With today's high energy prices, this puts real money back into the pockets of consumers.

Market-based regulation in electricity markets can be good for consumers because it provides choice and ultimately lower-prices.

I also see a role for a Commissioner to provide policing and stability for market investors. I realize that consumers greatly benefit from a healthy business community where small businesses can thrive and investors can minimize regulatory risk. Moreover, without regulatory stability, the financing of power plants face risks that will discourage new supply and increase costs.

I also apply what I've learned in politics to regulation. Specifically, I support policies that are in tune with Governor Arnold Schwarzenegger's post-partisan politics of practicality in California. Instead of focusing on partisan ideology, I focus on the practical outcomes of specific regulations. From my brief time in Sacramento, it became clear that energy producers approach policy under similar design, adopting the best idea's from both sides of the aisle.

I did not come here only to outline my regulatory philosophy, but also to describe the Commission's progress in all of the policies that directly support climate change mitigation and lead to real carbon reductions. Moreover, these policies are consistent with my own regulatory philosophy, in which government regulations create the rules of the road for dynamic markets.

Now let me share with you my thoughts on four very important topics that I have immersed myself in since joining the Commission:

- Renewable Energy
- Energy Efficiency and Demand Response
- Economic Development in the Green Economy, and
- Climate Change

Renewable Energy

Last year the legislature accelerated the Renewables Portfolio Standard, or RPS, to 20% renewable energy by 2010. The Investor Owned Utilities have made significant progress in the

past few years in reaching this goal and will have 20% of their electricity contracted by 2010, and delivered by 2011 or 2012.

The RPS has created a robust market for renewable energy and has led to construction of new renewable generation through competition and a level-playing field. I applaud the members of the Independent Energy Producers for playing an active role in the CPUC RPS proceedings and for helping to define the rules that have created this market. I also recognize that as developers of biomass, geothermal, small hydro, solar, and wind, you are the driving force in California that is building new, clean, steel in the ground that will help us meet the aggressive goals of AB32.

While we have made significant progress increasing the generation of renewable energy in the state, we still face a few very important challenges, which include transmission, grid integration, and technological innovation.

I will begin by speaking about transmission. Because renewable resources are often located far from population centers and existing transmission infrastructure, new transmission lines must be built to access these resources. This state is blessed with a plethora of untapped, high-quality renewable resources, including the sun to fuel large scale solar projects in the desert; undeveloped geothermal reserves, including those in the Imperial Valley; and high-wind areas including the Tehachapi region.

I support creative and collaborative initiatives to build new renewable transmission in the most cost-effective manner. For example, the CPUC is an active leader in the newly-formed Renewable Energy Transmission Initiative, which is a statewide planning process that will identify the most cost-effective transmission projects needed to accommodate the state's renewable energy goals. Because your members hold valuable knowledge regarding renewable resource potential in the state, I urge your active participation in this new process.

Grid integration of intermittent renewables is also becoming a challenge as we ramp up renewable energy procurement. We need a new paradigm and much creativity regarding how we think about the grid. Our grid was built for fossil-fuels such as coal, oil, and gas, or base-load power, such as nuclear. In order to shift towards low-carbon fuels, we need to procure more renewables and flexible fossil fuels that can complement the intermittent nature of renewable resources.

We also need to think creatively. For example, two weeks ago, PG&E and Tesla Motors announced a new partnership to explore smart charging. Instead of providing power back to the grid, smart charging remotely controls the vehicle charging rate to support the operation of the grid or best match load to the availability of intermittent renewable energy resources such as wind and solar. I applaud PG&E and Tesla for this bold step in energy conservation and grid management. Only through creative thinking and entrepreneurship will we be able to achieve a low-carbon future.

In order to meet the state's ambitious climate change goals, we will also need technological innovation on a large scale. As the assigned Commissioner to PG&E and SDG&E's application for an Emerging Renewables Resource Program, I am currently reviewing the proposal and am excited about the prospects for new renewable technologies to emerge such as wave energy.

Energy Efficiency and Demand Response

On the subject of energy efficiency and demand response, the Commission has made considerable progress in the last year. Last week, the Commission approved a risk/reward incentive mechanism for energy efficiency that creates a powerful incentive for top utility management to value energy efficiency equally to power plant development as they make future investment decisions. In lieu of this recent measure, I expect utilities to produce a corporate culture that rewards efficiency through compensation and other employee incentives.

Energy efficiency and demand response equate to financial literacy, saving consumers millions of dollars each year in energy costs. Through energy efficiency and demand response education, consumers have the ability to reduce their energy load, and increase their disposable income.

Jobs and the Green Economy

I also strongly believe in the opportunity this new energy economy affords our state for economic development and jobs for all communities in California. On January 14th of next year, I will be spearheading a conference in conjunction with the Willie Brown Institute titled "Advancing the New Energy Economy in California: Summit on, long-term investment, green jobs and financial growth."

This conference will bring together investors, political leaders, industry experts, and labor leaders to advance long-term investment, job creation, and financial growth within the green technology sector. Key figures will articulate the challenges and solution strategies for diversified, continuous

expansion of green business and technology in California. This conference is not intended to be a one day event, but rather the beginning of a dialogue to bridge the gap between the investor community and the green economy workforce to ensure that all communities can benefit from these new green economic development opportunities.

Climate Change

Let me now turn to my final topic: **climate change** and the joint efforts of the CPUC, the Energy Commission, and the California Air Resources Board to develop policies to implement AB32 for the electric and gas industries.

I am sure many of you are familiar with the current debate regarding a load-based cap or first-seller approach to regulating greenhouse gas emissions associated with electricity production. Before I go into the substance of each approach, I would like to be very clear that first and foremost, I support Cap-and-Trade. I fully support the Governor's energy and environmental vision to create a carbon trading market that lowers the cost of compliance, increases flexibility and liquidity in the marketplace, and sets an ambitious cap to curb emissions. To the extent that either point of regulation is compatible with cap-and-trade, then I believe we have the choice between two good options. But, we still need to make a choice.

Now for a little history. After lengthy consideration, the Commission voted last year, prior to my joining the PUC, to adopt what we call a "load-based cap," in which retail providers are responsible for the GHG emissions resulting from serving their customers. The reasoning was that as purchasers of power, retail providers are best positioned to choose low-carbon or carbon-free sources. This approach also appears to have the strongest chance of controlling emissions from imported power without violating the Commerce Clause of the U.S. constitution.

After attending the CPUC and CEC En Banc last month, I learned other compelling reasons regarding this approach. Most importantly, the load-based cap will cost ratepayers less than the other generator-based approaches. One of my policy goals as a Commissioner is for ratepayers to pay the minimum costs to clean up our electricity mix.

A load-based cap will minimize windfall gains to generators, which is what Europe experienced at the launch of the EU Emissions Trading System. Instead of freely allocating allowances, which led to windfall profits, a load-based cap gives the load-serving entities a carbon budget to manage

the portfolio within the cap, and trade allowances as needed. The drawback of the load-based cap is that we have never designed one before, and it is perceived as more complex than the generator-based options.

Recently, the Market Advisory Committee endorsed what it calls “the first-seller approach,” in which the entity generating electricity or bringing it into the state would have the compliance obligation. The main benefit cited for this approach is that for in-state generators it is effectively a source-based approach, which we have experience with through the acid rain program and the EU Emissions Trading System. Advocates of this approach believe it is simpler than the load-based cap and easier to monitor in-state trading and compliance. For imports, it’s basically the same as the load-based approach and shares the same challenges. The main drawback of this approach is the potential for windfall profits. The Regional Greenhouse Gas Initiative in the Northeast, or RGGI, has chosen a source-based approach, but will auction off allowances to mitigate this drawback. While an auction has the potential to mitigate this large transfer of wealth between ratepayers and generators, ratepayers still pay more due to higher electricity clearing prices. Raising power prices is an expensive way to improve the carbon footprint of the power sector. I think we can do better.

I have entered this debate with an open mind and have not yet made a final decision, but will be looking to see which approach is most compatible with cap-and-trade and offers the biggest cuts in greenhouse gases at the lowest cost to electricity consumers. I also see this as an opportunity for California to think creatively and lead the region and nation in designing the best greenhouse gas cap-and-trade system for the country.

On a regional note, this month I attended the Joint Western Public Utilities Commissions Renewable Energy Workshop in Santa Fe, New Mexico. During this workshop, I shared the dias with fellow Commissioners from New Mexico, Oregon, Utah, Washington, and other Western states. This workshop brought to bear the critical importance of making renewable energy development and climate change mitigation not only a state effort, but a regional effort. In fact, the governor has enlisted eight states and provinces in the Western Climate Initiative, which sets regional climate change reduction goals for 2020. Within the next year, this initiative will propose a regional carbon emissions trading system. I applaud the efforts and foresight of the governor and believe that regional cooperation and coordination is key for a meaningful and effective cap-

and-trade system. That being said, California still has a legislative mandate and much work to do while the regional efforts are getting started.

There is much more I can say about this topic and the others that I have covered, but I will stop now and give you the opportunity to ask a few questions. Thank you.