

Commissioner Simon's Comments
Item 44: Decision Resolving Petitions for Modification of Decision 10-03-021
Authorizing the Use of Renewable Energy Credits for Compliance with the
California Renewable Portfolio Standard and Lifting Stay And Moratorium
Imposed by Decision 10-05-018
January 13, 2011

Colleagues:

I support this Proposed Decision setting forth a policy framework and guidelines for the implementation of Tradable Renewable Energy Credits (TREC)s as part of the California Renewable Portfolio Standard (RPS). After many years in the making, this Proposed Decision clearly represents a significant investment of time and effort in the meticulous design of a TREC)s market that moves us closer to our long term renewable procurement goals. On balance, this TREC)s regulatory program is a critical step forward that should finally send positive signals to the investment community and to renewable developers.

A Regional Approach to Advancing the TREC)s Market

We take an incremental approach by instituting a fifty dollar REC price cap and a transitional twenty-five percent limit on the use of RECs for compliance with Annual Procurement Targets (APT)s of our RPS-obligated Load Serving Entities (LSE)s. I have expressed my concerns about an overly restrictive cap on RECs, but this is balanced by our “grandfathering light” approach to recent contracts for all entities subject to our Renewable Portfolio Standard. We also rely on the Western Renewable Energy Generation Information System (WREGIS) for the tracking and accounting of RECs. These features should enhance price transparency and track market price distortions in this nascent TREC)s market, while flexibly promoting the development of new RPS-eligible generation. This “training wheels” approach to market development will give the Commission an opportunity to more closely monitor market dynamics through the end of 2013, at which time this Commission will evaluate the need for these particular regulatory mechanisms.

It is important to recognize that increasing market liquidity is necessary if we are to successfully maintain competitive REC prices and promote further development of new eligible renewable resources in the Western Electricity Coordinating Council (WECC) region. Raising the cap on the use of RECs in the medium term will help us to achieve this liquidity and the benefits of a fully functioning regional market. In addition, I have long supported clean energy policy implementation on a regional basis, in large part because greenhouse gas

(GHG) mitigation efforts are not California's responsibility alone, as demonstrated by the efforts of the Western Governors Association, the Western Climate Initiative, the WECC, and other regional stakeholder groups. Furthermore, we cannot be unduly protectionist in our approach to long term resource planning.

Regional Planning Issues and In-State Economic Concerns

Nevertheless, I acknowledge that we must remain vigilant of the TRECs market to ensure that the demand for RECs by California's RPS-obligated LSEs does not have unintended consequences for integrated resource and transmission planning in other jurisdictions in the WECC region. While other jurisdictions clearly have their own set of regulatory planning tools, I share concerns with fellow Commissioners from other western states about potential spot market volatility and related market distortions resulting from this TRECs decision. Specifically, to the extent that today's decision will hasten REC transactions and increased renewable development in other states, we should certainly keep an eye on wholesale prices in other balancing authorities and truly maximize coordination of transmission development throughout the west. Notwithstanding these concerns, I look forward to a more robust and less restrained TRECs market in the near term to enable cost-effective RPS compliance for our ratepayers.

Lastly, I have long asserted that California's long term economic welfare will not be stymied by the transition to a TRECs market. Rather, California's economic development and jobs growth depend on a complex set of factors and challenges that far outweigh the speculative impacts RECs will have on new renewable development. These impacts are largely imposed by a set of state and local restrictions to infrastructure deployment that we must continue to address. The TREC marketplace should not bear the burden of California's challenges to bringing domestic renewable projects online in a manner that will comply with legislatively imposed greenhouse gas regulatory mandates. Furthermore, a regional approach to clean energy policies will result in economic opportunities for the entire western region.

In closing, I wish to take a moment to thank and congratulate Administrative Law Judge Anne Simon for a thorough decision as well as her extraordinary efforts and patience in this protracted deliberative process. In addition, I thank ALJ Simon, President Peevey, his advisor, Andy Schwartz, and the Energy Division RPS group for collectively working with my office to address our concerns throughout this proceeding. I appreciate President Peevey's leadership on this matter in the face of a changing political environment. [And I sincerely hope that this is the last that I see of this decision!]

Thank you.

