BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Implement the Commission's Procurement Incentive Framework and to Examine the Integration of Greenhouse Gas Emissions Standards into Procurement Policies.	R._____

ORDER INSTITUTING RULEMAKING

I. Summary[1]

We open this Order Instituting Rulemaking (OIR) today to implement the Procurement Incentive Framework adopted in Decision (D.) 06-02-032, and to consider adoption and implementation of a Greenhouse Gas (GHG) emissions performance standard, per the Commission's October 6, 2005 GHG Policy Statement.

We recognize the need to open a new rulemaking that focuses on these issues in order to effectively coordinate GHG emission reduction policies and associated implementation steps for utility energy procurement. As discussed below, opening this rulemaking moves us forward in meeting the objectives of the Energy Action Plan (EAP) and the statewide GHG reduction targets established for California.

[1] Attachment 1 describes the abbreviations and acronyms used in this decision.

II. Background

Over the past three years, the Commission has undertaken efforts to identify and address GHG emissions associated with regulated energy utilities. Our initial activities included the adoption of the EAP in May 2003. The EAP articulates the joint commitment of the California Public Utilities Commission ("the Commission") and the California Energy Commission (CEC) to energy resource planning and procurement that reflects "continuing progress in meeting the state's environmental goals and standards, including minimizing the energy sector's impact on climate change."[2] More specifically, the EAP recognizes the need to "encourage companies that invest in energy consideration and resource efficiency to register with the state's voluntary Climate Change Registry."[3] The four largest California investor-owned energy utilities (IOUs)[4] are members and active participants in the California Climate Action Registry (CCAR), and annual report independently-verified inventories of their GHG emissions.

In June 2004, the Commission requested that its regulated energy utilities address key issues pertaining to climate change as part of their long-term energy procurement planning.[5] This included an assessment of the utilities' current GHG emissions profiles and steps the utilities have taken to minimize the release of these gases. Recognizing that future regulation of GHG emissions was

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[2] California Energy Action Plan at 3 (May 2003).

[3] *Ibid*. at 5.

[4] Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E), and Southern California Gas Company (SoCalGas).

[5] *Administrative Law Judge's Ruling Supplemental Requirements for Long-Term Plan Filings,* June 29, 2004 in Rulemaking (R.) 04-04-003.

probable, the Commission directed the utilities to employ an environmental adder in evaluating procurement options, including the evaluation of competitive bids. The adder serves to internalize "the significant and under-recognized cost of GHG emissions" and to reduce California's exposure to costs associated with future regulation of these emissions.[6]

By D.04-12-048, the Commission further articulated its expectations for the development of a GHG reduction policy:

> "In a separate phase of this proceeding, we will be evaluating a procurement incentive framework modeled after the cap-and-trade principles of the Sky Trust. [Footnote omitted.] Under that proposed framework, the Commission would establish annual limits on carbon-based energy procurement as a means to meet the Commission's EAP goals and minimize utility contribution to climate change. We will address the effectiveness of this proposal, as well as other approaches to 'carbon caps' on utility procurement, to minimize utility contribution to climate change, in subsequent decisions in this rulemaking or other appropriate proceedings. For this purpose the Assigned [Administrative Law Judge] and/or Assigned Commissioner may direct Commission staff to perform additional analysis or studies, as needed. We intend to put in place a procurement incentive framework after considering the cap-and-trade Sky Trust proposal as well as other approaches (e.g., specific carbon emission limits) by the end of 2006, or as soon as practicable."[7]

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[6] D.04-12-048, pp. 140-141. In D.05-04-024, the Commission established a value of $8 per ton of carbon dioxide (CO_2) for this adder. The adder is for planning purposes only (e.g., in evaluating contracts, competitive bids or procurement plans) and not used to establish payments by the utility to any entity.

[7] D.04-12-048, *mimeo*., p. 155.

On June 1, 2005, Governor Schwarzenegger announced his statewide GHG reduction targets in Executive Order S-3-05. Those targets provide for the following reductions in GHG emissions: reduction to 2000 emissions levels by 2010, reduction to 1990 levels by 2020, and reduction to 80% below 1990 levels by 2050.

Executive Order S-3-05 also calls for the California Environmental Protection Agency to lead a multi-agency effort to conduct an analysis of the impacts of climate change on California and to develop strategies to achieve the targets and mitigation/adaptation plans for the state. This effort is now being referred to as the Climate Action Team. Strategies identified and under consideration by the Climate Action Team include significant anticipated reductions in GHG emissions from the electric sector.

Following on the Governor's Executive Order, in September and October 2005, both the CEC and the Commission (respectively) adopted the EAP II. This updated plan includes several key actions specific to reducing GHG emissions, such as:

- Reporting to the Governor on the findings of the Climate Action Team subgroup on electric sector strategies for the state;
- Considering 2010, 2020, and 2050 GHG reduction targets for retail sellers of electricity to contribute to the Governor's GHG emission reduction targets;
- Coordinating with the Climate Action Team on the Commission's consideration of a GHG emissions cap for IOUs;
- Ensuring that energy supplies serving California, from any source, are consistent with the Governor's climate change goals;
- Identifying Western State policies and strategies to achieve production of 30,000 megawatts (MW) of clean energy across the West by 2015, consistent with the Western Governors'

Association Clear and Diversified Energy Committee and West Coast Climate Initiative goals; and

- Identifying methodologies to quantify the expected costs and benefits of climate change policies.

On October 6, 2005, the Commission issued a Policy Statement on Greenhouse Gas Performance Standards (GHG Policy Statement) announcing that "there are approximately 30 proposed coal-fired plants across the West, some of which are planned in anticipation of meeting demand in California. The carbon dioxide emissions from just three 500 MW conventional coal-fired power plants would offset all of the emissions reductions from the IOUs' energy efficiency programs and would seriously compromise the State's ability to meet the Governor's GHG goals. As the largest electricity consumer in the region, California has an obligation to provide clear guidance on performance standards for utility procurement." To address this concern, the Commission stated its intent to investigate the integration of GHG emissions standards into its procurement policies, including the Procurement Incentive Framework being developed in R.04-04-003. A copy of the GHG Policy Statement is presented in Attachment 2 to this OIR.

On February 16, 2006, the Commission issued D.06-02-032 in R.04-04-003. In that decision, the Commission stated its intent to develop a load-based GHG emissions cap as the cornerstone of its Procurement Incentive Framework, noting that: "[e]stablishing a GHG cap is consistent with the Governor's objectives for climate change policy, as well as our own GHG Policy Statement."[8]

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[8] D.06-02-032, *mimeo.*, p. 16.

Per D.06-02-032, the load-based cap would initially apply to the GHG emissions of PG&E, SCE, SDG&E, and non-utility load serving entities (LSEs) that provide electric power to customers within the PG&E, SCE, or SDG&E service territories. Over the longer term, the Commission stated that a GHG limitation program that would include emissions from the natural gas sector, as the requisite emission reporting and certification protocols become available. Under a load-based cap, the LSEs are subject to GHG emissions limits for all resources procured to serve their load, no matter from what source, including imports.

By D.06-02-032, the Commission made a number of preliminary determinations to guide the next steps in implementing a load-based cap, but left most of the design details, including the development of flexible compliance options (e.g., offsets, trading and banking/borrowing of allowances), to a subsequent implementation phase. In doing so, the Commission stated:

> "We emphasize that nothing in today's decision precludes us from opening a new proceeding to address these implementation issues and/or to consolidate these issues with our consideration of performance standards for utility procurement discussed in the Commission's October 6, 2005 GHG Policy Statement."[9]

Accordingly, the focus of our efforts in this rulemaking will be to address the implementation issues associated with the Commission's adopted Procurement Incentive Framework and consider the performance standard for utility procurement discussed in the Commission's GHG Policy Statement. As indicated by the chronology outlined above, the Commission's GHG Policy

[9] D.06-02-032, *mimeo*., p. 53. See also Ordering Paragraph 6.

Statement was issued prior to the adoption of the Procurement Incentive Framework in D.06-02-032. Therefore, our investigation of the "integration of a performance standard…into the [Commission's] existing policies regarding GHG emissions," as discussed in that statement, now has a more specific context, i.e., the load-based GHG emissions cap adopted in D.06-02-032. It is within that context that we scope the issues for this rulemaking, as discussed further below.

The need to move expeditiously on these matters is further underscored by the findings of the statewide Climate Action Team, as presented in the Final Climate Action Team Report to the Governor and the Legislature on April 3, 2006 (Final Report). After extensive analysis and public input, the Climate Action Team concludes that "There is little doubt that climate change is happening today, [and] that human-caused increases in the atmospheric abundance of climate change pollutants are a large cause of that change..."[10] The consequences to California include: potential reduction in the Sierra snow pack of up to 90 percent, severe disruption of this state's hydropower electricity generation resources, increases in heat-related fatalities, coastline erosion, sea water intrusion into the delta, negative impacts on state's agriculture industry, serious threats to the structural integrity of the levee system, increasing incidence of forest fires, and dramatic increases in electricity consumption in response to higher summer temperatures.[11] In sum, the impact of climate change on California's natural resources and economic vitality could be calamitous.

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[10] Final Report, p. 15. This report and executive summary can be viewed at: **www.climatechange.ca.gov.**

[11] See Section IV of the Final Report, pp. 19-35.

In order to fulfill our obligation to protect the ratepayers of this state from the financial and environmental risks associated with climate change and potential federal policies to address those risks, it is necessary for this Commission to take proactive measures to mitigate both the causes and the impacts of climate change through our energy procurement policies. To this end, we open a proceeding to implement the policies for GHG emissions reductions adopted in D.06-02-032 and to consider the augmentation of those policies through adoption of a GHG emissions performance standard for electric procurement. We direct the Assigned Commissioner or Administrative Law Judge (ALJ) to hold a prehearing conference (PHC) as soon as practicable in order to finalize the scope and schedule for this proceeding. As discussed below, our goal is to address the threshold issues related to a GHG performance standard by year end. Concurrently, we will proceed with key implementation issues associated with the load-based GHG cap adopted in D.06-02-032, including the critical implementation requirement of GHG emissions reporting and monitoring.

III. Preliminary Scoping Memo

The preliminary scoping memo for this rulemaking is presented in the following sections. We invite the participation of all parties who are interested in these efforts, including those who have actively participated in R.03-03-004 and who intend to participate in R.06-02-013. We also invite interagency participation from the Climate Action Team members and the CCAR.

A. GHG Emissions Performance Standard For Electric Procurement

In the GHG Policy Statement, the Commission describes a GHG emissions performance standard that would limit the GHG emissions levels for all new utility-owned generation and all procurement contracts that exceed three years in length to "no higher than the GHG emissions levels of a combined-cycle natural gas turbine." (See Attachment 2.)

In this rulemaking, we will address the following threshold issues regarding the GHG emissions performance standard:

(1) whether a GHG emissions performance standard is appropriate or necessary in conjunction with a GHG emissions load-based cap and trade regime as adopted by D.06-02-032,

(2) options for the design of a performance standard (including the approach described in the GHG Policy Statement), and

(3) whether a performance standard should be adopted in the near-term, so it may guide ongoing procurement planning while we take the necessary steps to fully implement the load-based cap adopted in D.06-02-032, and/or in conjunction with the load-based cap adopted by D.06-02-032.

We intend that our final decision on these matters inform the utilities as they go forward with their procurement activities. Even prior to our final decision on these matters, we expect parties will be asked to consider the GHG Policy Statement in the long-term procurement plans filed in R.06-02-013, as well as any subsequent procurement planning proceedings. We expect guidance on how to consider the GHG Policy Statement in the plans will be provided concurrently with any other plan filing guidance provided by the ALJ or Assigned Commissioner in R.06-02-013. Plan filing guidance will not be

indicative of our decision on the GHG Policy Statement, rather the final decision on this matter in this rulemaking will be determinative.[12] As discussed in Section VI below, our goal is to issue a final decision on the above threshold issues by year end.

The scope of this proceeding will include, but not be limited to, the following areas and issues:

- Is a GHG emissions performance standard necessary and appropriate along with a load-based cap on GHG emissions?
- Will a GHG emissions performance standard achieve the Commission's goals as articulated in the EAP and Commission decisions? How does it contribute to the environmental goals established by the Governor's Executive Order S-3-05?
- If adopted, how should the GHG performance standard be integrated into the state's other GHG emissions policies, including the carbon adder (D.04-12-048) and the load-based cap adopted in D.06-02-032?
- Are there changes to the standard set forth in the 2005 GHG Statement that would further ensure achievement of these goals?
- On what basis should the standard be applied: on the utility's entire long-term procurement portfolio, each individual long-term procurement contract, or another basis?
- What ratepayer costs are associated with implementing the standard and how could these costs be mitigated?
- What enforcement mechanisms are appropriate and necessary?

[12] Moreover, this rulemaking, and not R.06-02-013, will be the forum for addressing the GHG Policy Statement and issues related to a GHG performance standard.

B. Procurement Incentive Framework—Implementation Phase

This rulemaking will address the implementation issues associated with the load-based GHG emissions cap adopted in D.06-02-032 as part of the Commission's Procurement Incentive Framework.[13] These steps include, but are not limited to: (1) quantifying the GHG emissions baseline for each LSE, (2) adjusting GHG emission reduction requirements over time, relative to the baseline, (3) adopting and administering a process for allocating emission allowances, and (4) developing flexible compliance mechanisms with appropriate performance incentives and penalties. Per D.06-02-032, implementation of a load-based cap will be guided by the following:[14]

a. The load-based cap should include emissions allowances for "tons of carbon dioxide equivalent," and over time include all six major GHGs (i.e., carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride).

b. The load-based cap should include provisions for lowering the GHG reduction requirements (and associated cap) over time, relative to a baseline level of GHG emissions.

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[13] As discussed in D.06-02-032, in addition to establishing a load-based GHG emissions cap, the Commission will evaluate proposals for shareholder financial incentives in resource-specific proceedings, beginning with energy efficiency. This evaluation will occur in R.01-08-028, or its successor proceeding, and therefore is not within the scope of today's rulemaking. Nonetheless, we will closely coordinate the development of such resource-specific financial incentives with today's rulemaking, to ensure that the design of those mechanisms works in tandem with our GHG emission reduction policies, and avoids any double-counting of financial rewards or penalties. See D.06-02-032, pp. 30-32, 34-35, Ordering Paragraph 7.

[14] D.06-02-032, Ordering Paragraph 2.

c. The baseline should be established on a historical year basis, with 1990 as the preferred reference year. A final determination on this matter should await further consideration of implementation issues associated with using this particular year as the reference, including the availability of adequate historical emissions data for the IOUs and other LSEs.

d. The costs and benefits of the GHG emissions cap and associated flexible compliance options that are developed for Commission consideration during the implementation phase should be evaluated.

e. GHG emissions allowances under the load-based cap should be allocated administratively by the CPUC.

f. The pros and cons of various flexible compliance options should be fully explored, including offsets, trading, banking and borrowing. Efforts during the implementation phase should focus on ensuring that compliance options are credible, verifiable, and administratively feasible.

g. A penalty mechanism should be developed in conjunction with further consideration of flexible compliance options, with preference towards structuring penalties as alternative compliance payments.

Consistent with the Commission's direction in D.06-02-032, we will also explore in this rulemaking the concept of allowance sale incentives. Under this mechanism, the Commission would certify GHG emission allowances based on superior performance (as defined by the Commission) that the utilities could sell outside of California to the benefit of their shareholders.[15]

Per D.06-02-032, we will also consider ways in which the CCAR protocols can be modified to include generation/facility specific data to fit within

a load-based cap, and establish a date by which all power purchase agreements that PG&E, SDG&E, and SCE sign for power should include a provision requiring supplier registration with the CCAR. We will consider the option of assigning the emissions value of coal to any non-renewable supplies of electricity with fossil fuel emissions that are unregistered with the CCAR, along with other alternatives to address this larger portion of the market.[16]

During the implementation phase, we will identify the issues for which energy service providers, community choice aggregators, and the utilities should be subject to the same terms and conditions of GHG reduction requirements and associated caps, and those where differences may be appropriate.[17] In addition, we will further define the steps to take to ensure that GHG emissions associated with customer use of natural gas are incorporated into a procurement incentive framework for the future.[18]

In the meantime, D.06-02-032 requires LSEs to include information about existing GHG emissions profiles and the future GHG implications of their procurement plans in their 2006 procurement plan filings, which will be filed in the recently opened procurement proceeding, R.06-02-013. Accordingly, we direct the Assigned Commissioner(s) and ALJ(s) in this rulemaking and R.06-02-013 to coordinate carefully as we move forward to address the GHG emissions reporting and related issues in these two proceedings.

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[15] *Ibid.*, pp. 34-25, Ordering Paragraph 3.

[16] *Ibid.*, pp. 48-49, Finding of Fact 36, Ordering Paragraph 2 (h).

[17] *Ibid.*, Ordering Paragraph 4.

[18] *Ibid.*, Ordering Paragraph 5.

IV. Category of Proceeding

Rule 6(c)(2) of our Rules of Practice and Procedure provides that the order instituting rulemaking "shall preliminarily determine the category" of the proceeding. This rulemaking is preliminarily determined to be quasi-legislative, as that term is defined in Rule 5(d).

V. Respondents and Service List

The respondents to this rulemaking are PG&E, SCE, SDG&E, SoCalGas, and the non-utility LSEs (energy service providers and community choice aggregators) that provide electric power to customers within the service territories of PG&E, SCE, and SDG&E.

We will serve this OIR on the utility and non-utility respondents listed in Attachment 3. In addition, we will serve this OIR on the service lists (appearances, state service list, and information-only category) in the following proceedings:[19]

- R.04-04-003 and R.06-02-013, the procurement rulemakings;
- R.03-10-003, the community choice aggregation rulemaking;
- R.01-08-028, the energy efficiency rulemaking or its successor proceeding;
- R.04-04-026, the renewables portfolio standard rulemaking;
- I.00-11-001, the transmission planning investigation;
- R.04-01-026, the transmission assessment rulemaking;
- R.04-03-017, the distributed generation rulemaking; and
- R.04-04-025, the avoided cost rulemaking.

[19] Those organizations and individuals listed under the state service list and information-only categories will be served electronically only.

The service list for this rulemaking shall be established as follows:

(1) Within 15 days of the date of mailing of this order, any individual or representative of an organization who wishes to be placed on the service list in this rulemaking must send a request to the Commission's Process Office.

(2) The request must be sent both electronically to the Process Office (Process_office@cpuc.ca.gov) and by hard copy to the Process Office at 505 Van Ness Avenue, Room 2000, San Francisco, California 94102.

(3) The request must include the following: (a) this proceeding number, (b) the name of the individual/representative and organization (as appropriate), (c) mailing address, (d) electronic address, (e) telephone number, and (f) where to be listed on the service list (under the "appearances," "state service," or "information-only" categories). Attachment 4 presents a brief description of these service list categories.

(4) As soon as practicable thereafter, the Process Office will post the service list on the Commission's website, at www.cpuc.ca.gov.

Anyone interested in participating in this rulemaking who is unfamiliar with the Commission's procedures should contact the Commission's Public Advisor in Los Angeles at (213) 649-4782 or in San Francisco at (415) 703-7074, (866) 836-7875 (TTY – toll free), or (415) 703-5282 (TTY), or send an e-mail to public.advisor@cpuc.ca.gov.

Service of documents in this proceeding shall be made by electronic service pursuant to the Electronic Service Protocols contained in Attachment 4 and consistent with the Commission's Rules of Practice and Procedure 2.3 and 2.3.1. In addition, a hard copy of all documents shall be mailed to the Assigned ALJ(s) and Commissioner.

VI. Schedule

The Assigned Commissioner or ALJ shall schedule a PHC as soon as practicable. A preliminary schedule for this proceeding will be discussed at the

first PHC. Those who wish to file comments on the issues identified in this OIR shall submit and serve their comments in accordance with the schedule and procedures established at the first PHC or by Assigned Commissioner or ALJ ruling.

Our goal is to address the threshold policy issue associated with a GHG performance standard by year end (see Section III.A. above), while moving forward expeditiously with key implementation issues for the procurement incentive framework established in D.06-02-032 (Section III.B). We leave it to the Assigned Commissioner and/or Assigned ALJ to establish a schedule that sequences the issues most appropriately for this purpose.

Consistent with Rule 6(e), we expect this proceeding to be concluded within 18 months.

VII. Objection to Category

Any person who objects to the preliminary categorization of this rulemaking shall raise such objection no later than 10 calendar days after the Commission issues this OIR.

VIII. Ex Parte Communications

This proceeding is subject to Rule 7, which specifies standards for engaging in ex parte communications and the reporting of such communications. Pursuant to Rules 7(a)(4) and 7(d), ex parte communications will be allowed in this proceeding without any restrictions or reporting requirements until the assigned Commissioner makes an appealable determination of category as provided for in Rules 6(c)(2) and 6.4. Following the Commissioner's determinations, the applicable ex parte communication and reporting requirements shall depend on such determination unless and until the Commission modifies the determinations pursuant to Rule 6.4 or 6.5.

Therefore, **IT IS ORDERED** that:

1. A rulemaking is instituted on the Commission's own motion to implement the Commission's procurement incentive framework and to examine the integration of greenhouse gas emissions standards into procurement policies.

2. The Respondents to this rulemaking are Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E), Southern California Gas Company, and the non-utility load serving entities that provide electric power to customers within the service territories of PG&E, SCE and SDG&E.

3. Attachment 3 presents the list of utility and non-utility respondents to this proceeding. In addition, any electric service provider that, subsequent to the date of the order instituting this rulemaking, becomes registered to provide services within the service territory of one or more of the respondent electric corporations (PG&E, SCE, or SDG&E) through direct access transactions shall, upon such registration, become a respondent to this proceeding. Any respondent electric service provider whose registration is cancelled shall, upon confirmation of the Energy Division, cease to be a respondent.

4. Any community choice aggregator that, subsequent to the date of the order instituting this rulemaking, becomes registered to provide services within the service territory of one or more of the respondent electric corporations (PG&E, SCE, or SDG&E) through community choice aggregation transactions shall, upon such registration, become a respondent to this proceeding.

5. This rulemaking is preliminarily determined to be quasi-legislative, as that term is defined in Rule 5(d).

6. Any person who objects to the preliminary categorization of this rulemaking shall raise such objection no later than 10 calendar days after the Commission issues this Order Instituting Rulemaking (OIR).

7. As discussed in this ruling, the Executive Director shall cause this OIR to be served on Respondents listed in Attachment 3 and the service lists in the following proceedings:

- Rulemaking (R.) 04-04-003 and R.06-02-013, the procurement rulemakings;
- R.03-10-003, the community choice aggregation rulemaking;
- R.01-08-028, the energy efficiency rulemaking or its successor rulemaking;
- R.04-04-026, the renewables portfolio standard rulemaking;
- I.00-11-001, the transmission planning investigation;
- R.04-01-026, the transmission assessment rulemaking;
- R.04-03-017, the distributed generation rulemaking; and
- R.04-04-025, the avoided cost rulemaking.

8. The service list in this rulemaking shall be established as follows:

- Within 15 days of the date of mailing of this order, any individual or representative of an organization who wishes to be placed on the service list in this rulemaking must send a request to the Commission's Process Office.
- The request must be sent both electronically to the Process Office (Process_office@cpuc.ca.gov) and by hard copy to the Process Office at 505 Van Ness Avenue, Room 2000, San Francisco, California 94102.
- The request must include the following: (1) this proceeding number, (2) the name of the individual/representative and organization (as appropriate), (2) mailing address, (3) electronic address, (4) telephone number, and (4) where to be listed on the service list (under the "appearances," "state service," or "information-only" categories).

- As soon as practicable thereafter, the Process Office will post the permanent service list on the Commission's website, at www.cpuc.ca.gov.

9. Service of documents in this proceeding shall be made by electronic service pursuant to the Electronic Service Protocols contained in Attachment 4 and consistent with the Commission's Rules of Practice and Procedure 2.3 and 2.3.1. In addition, a hard copy of all documents shall be mailed to the Assigned Administrative Law Judge(s) (ALJ) and Assigned Commissioner.

10. The Assigned Commissioner or ALJ shall schedule a prehearing conference in this rulemaking as soon as practicable. Those who wish to file comments on the issues identified in this OIR shall submit and serve their comments in accordance with the schedule and procedures established at the first prehearing conference or by Assigned Commissioner or ALJ ruling.

This order is effective today.

Dated _____, at San Francisco, California.

ATTACHMENT 1

LIST OF ACRONYMS AND ABBREVIATIONS

ALJ	Administrative Law Judge
CCAR	California Climate Action Registry
CEC	California Energy Commission
D.	Decision
EAP	Energy Action Plan
GHG	Greenhouse Gas
IOUs	investor-owned utilities
LSEs	load serving entities
mimeo.	mimeograph
MW	megawatt
OIR	Order Instituting Rulemaking
p.	page
PG&E	Pacific Gas and Electric Company
PHC	prehearing conference
R.	Rulemaking
SCE	Southern California Edison Company
SDG&E	San Diego Gas & Electric Company
SoCalGas	Southern California Gas Company
The Commission or CPUC	California Public Utilities Commission

(END OF ATTACHMENT 1)

ATTACHMENT 2
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COMMISSION'S POLICY STATEMENT ON GREENHOUSE GAS PERFORMANCE STANDARDS, OCTOBER 6, 2005

WHEREAS, In June 2005 Governor Schwarzenegger announced his groundbreaking initiative to reduce California's greenhouse gas (GHG) emissions to 1990 levels by 2020; and

WHEREAS, The California Public Utilities Commission (PUC) is actively participating in the Governor's Climate Action Team and is implementing energy policies that are consistent with the GHG goals; and

WHEREAS, Over the past 12 months the State of California has taken significant strides towards implementing an environmentally and economically sound energy policy through Governor Schwarzenegger's GHG reduction targets and the adoption of the Energy Action Plan II (EAP II) by the PUC and the California Energy Commission (CEC). These policies recognize that principal reliance on energy efficiency, conservation measures and renewable resources is the path to a sustainable energy future that ensures adequate and reliable supply at stable prices; and

WHEREAS, The PUC will meet the Governor's GHG goals and implement the policies set forth in EAP II. The PUC has established new, aggressive standards for energy efficiency and is developing a plan to meet the Governor's goal of a 33 percent renewable portfolio standard by 2020; and

WHEREAS, To the extent efficiency, demand response, renewable resources, and distributed generation are unable to satisfy increasing energy and capacity needs, EAP II states that the State will rely on clean and efficient fossil-fired generation. A key action item in EAP II is to "encourage the development of cost-effective, highly-efficient, and environmentally-sound supply resources to provide reliability and consistency with the State's energy priorities."; and

WHEREAS, The PUC concluded in its December 2004 decision approving the IOUs' long-term procurement plans (Decision 04-12-048) that future regulation of GHG emissions is probable and directed the Investor Owned Utilities (IOUs) to employ an environmental adder in evaluating procurement bids. A GHG emissions standard will further serve to internalize "the significant and under-recognized cost of GHG emissions" recognized in the PUC's Decision, and to reduce California's exposure to costs associated with future regulation of these emissions; and

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WHEREAS, The establishment of a policy such as a GHG emissions standard for all electric procurement is a logical and necessary step to meet EAP II and the Governor's GHG goals. In order to have any meaningful impact on climate change, the Governor's GHG emissions reduction goals must be applied to the State's electricity consumption, not just the State's electricity production; and

WHEREAS, The CEC has requested the PUC's input on a proposed GHG policy for electricity generation contained in the 2005 draft *Integrated Energy Policy Report* (Draft IEPR) that, ". . . any GHG performance standard for utility procurement be set no lower than levels achieved by a new combined-cycle natural gas turbine."; and

WHEREAS, In a letter to the IEPR Committee, CEC Chairman Desmond stated, ". . . California should act to minimize potentially significant reliability and cost risks by avoiding more long-term investments (exceeding 3-5 years in duration) in baseload power plants with emissions per megawatt-hour of greenhouse gases and criteria air pollutants exceeding those of a combined cycle natural gas turbine."; and

WHEREAS, The State's energy agencies must act expeditiously and in concert to send the right investment signals to electricity markets throughout the West. Many of the resources that may generate electricity for consumption in the State are currently in the planning stage. For example, there are approximately 30 proposed coal fired plants across the West, some of which are planned in anticipation of meeting demand in California. The carbon dioxide emissions from just three 500 MW conventional coal-fired power plants would offset all of the emissions reductions from the IOUs' energy efficiency programs and would seriously compromise the State's ability to meet the Governor's GHG goals. As the largest electricity consumer in the region, California has an obligation to provide clear guidance on performance standards for utility procurement; and

WHEREAS, Publicly-owned utilities currently are not required to meet the state's energy efficiency, renewables and environmental standards.

NOW, THEREFORE, BE IT

RESOLVED, The PUC directs the Executive Director to forward this Policy Statement and a report on the deliberations of the PUC on this matter to the CEC;

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RESOLVED, The PUC directs Staff and its General Counsel to investigate adoption by the PUC of a greenhouse gas emissions performance standard for IOU procurement that is no higher than the GHG emissions levels of a combined-cycle natural gas turbine for all procurement contracts that exceed three years in length and for all new IOU owned generation. In the case of coal-fired generation, the capacity to capture and store carbon dioxide safely and inexpensively is necessary to meeting the standard;

RESOLVED, The PUC directs Staff and its General Counsel to promote and advocate for policies at the state and federal levels that encourage the development of environmentally sound resources with an emphasis on reductions in GHG emissions;

RESOLVED, That the PUC authorizes Staff to investigate the integration of a GHG performance standard into the PUC's existing policies regarding GHG emissions including the environmental adder, the procurement incentives framework, as well as the work of the Governor's Climate Action Team and the CEC. A critical step in this process will be to collect specific fuel type information for IOU procurement at a level of detail that will allow the State to ensure that the performance standard is met;

RESOLVED, The PUC directs Staff, working with the CEC, to investigate offset policies that are designed to ensure that the Governor's GHG goals are achieved. In addition, the PUC directs Staff to consider whether an offset policy would eliminate the important benefit of mitigating financial risk to California consumers of future GHG regulation and also significantly dampen the market signal for investment in new and improved technologies for clean generation. Finally, any offset policy must include a reliable and enforceable system of tracking emissions reductions;

RESOLVED, In order to ensure consistency, the PUC calls on the publicly-owned utilities to reduce emissions that contribute to global warming by adopting energy efficiency and renewables goals that are comparable to the standards that the IOUs are required to meet under state law and regulation, as well as adopting an equivalent GHG performance standard.

(END OF ATTACHMENT 2)

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LIST OF RESPONDENTS

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In addition, any electric service providers that, subsequent to the date of the order instituting this rulemaking, becomes registered to provide services within the service territory of one or more of the respondent electric corporations (PG&E, SCE, or SDG&E) through direct access transactions shall, upon such registration, become a respondent to this proceeding.

Any respondent electric service provider whose registration is cancelled shall, upon confirmation of the Energy Division, cease to be a respondent.

Community Choice Aggregators

Any community choice aggregator that, subsequent to the date of the order instituting this rulemaking, becomes registered to provide services within the service territory of one or more of the respondent electric corporations through community choice aggregation transactions shall, upon such registration, become a respondent to this proceeding.

(END OF ATTACHMENT 3)

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ELECTRONIC SERVICE PROTOCOLS

These electronic service protocols are applicable to all "appearances" and individuals/organizations on the "state service" list that serve comments or other documents in this proceeding.

I. Party Status in Commission Proceedings

In accordance with Commission practice, by entering an appearance at a hearing or by other appropriate means, an interested party or protestant gains "party" status. A party to a Commission proceeding has certain rights that non-parties do not have. For example, a party has the right to participate in evidentiary hearings, file comments on a proposed decision, and appeal a final decision. A party also has the ability to consent to waive or reduce a comment period, and to challenge the assignment of an Administrative Law Judge (ALJ). Non-parties do not have these rights, even though they are included on the service list for the proceeding and receive copies of some or all documents.

Non-parties may participate in this proceeding under either the "state service" or "information only" categories. Commission staff members, divisions or branches, Legislators or their staff members, and state agencies or their staff members may participate as under the state service category. They will be allowed to file comments or other documents on issues in this rulemaking, at the direction of the assigned ALJ(s) or Assigned Commissioner.

Those who request to be categorized as "information only" will receive all Commission-generated notices of hearings, rulings proposed decisions and Commission decisions at no charge. However, individuals on the "information

only" list will not receive copies of pleadings or other filings in this proceeding, and may not comment on the issues in this proceeding, unless they later apply for party status.

II. Service of Documents by Electronic Mail

For the purposes of this proceeding, all individuals in appearance and state service categories shall serve documents by electronic mail, and in turn, shall accept service by electronic mail consistent with Rule 2.3 and 2.3.1. In addition, paper copies shall be served on the assigned ALJ(s).

III. Notice of Availability

If a document, including attachments, exceeds 75 pages, parties may serve a Notice of Availability in lieu of all or part of the document, in accordance with Rule 2.3(c) of the Commission's Rules of Practice and Procedure. However, paper copies of that document shall be served on the assigned ALJ(s).

IV. Filing of Documents

These electronic service protocols govern service of documents only, and do not change the rules regarding the tendering of documents for filing. Documents for filing must be tendered in paper form, as described in Rule 2, et. seq., of the Commission's Rules of Practice and Procedure.

V. Obtaining Up-to-Date Electronic Mail Addresses

An up-to-date service list of electronic mail addresses is posted by Process Office on the web at:
http://www.cpuc.ca.gov/published/service_lists/sl_index.htm

To view and copy the electronic addresses for a service list, download the comma-delimited file, and copy the column containing the electronic addresses.

The Commission's Process Office periodically updates service lists to correct errors or to make changes at the request of parties and non-parties on the list. Parties should go to the website listed above (or obtain paper copy from the Process Office) before serving a document. Parties should not "bookmark" the web page for future use, since it may not reflect the most up to date listings on the service list.

VI. Pagination Discrepancies in Documents Served Electronically

Differences among word-processing software can cause pagination differences between documents served electronically and print outs of the original. (If documents are served electronically in PDF format, these differences do not occur.) For the purposes of reference and/or citation (e.g., at the Final Oral Argument, if held), parties should use the pagination found in the original document.

(END OF ATTACHMENT 4)