Cap and Trade Implementation for California’s Investor-Owned Utilities

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March 7, 2013
Presentation Overview

• CPUC Rules Governing Utility Procurement of Allowances & Offsets
• Auction Revenue Distribution Framework
• Overview of Sinclair Paint Restrictions
IOU Procurement of Allowances and Offsets

- Rules governing IOU procurement of C&T compliance instruments adopted in Decision 12-04-046
- Compliance instruments may be purchased from ARB or through exchanges
- Bilateral purchases permitted only via competitive solicitations
- C&T regulation allows ARB to invalidate an offset for up to eight years after issuance
- D.12-04-046 only authorizes IOUs to procure offsets if seller assumes invalidation risk
- CPUC may relax some of these constraints as markets mature
IOU Emissions Allowance Allocation

- The IOUs will collectively receive 64.5 million allowances in 2013, declining to 53.5 million allowances in 2020, for a total of approximately 470 million allowances.

- Allocation greatly exceeds utility compliance obligation because CA IOUs own relatively little fossil generation (but they do assume compliance responsibility under many bilateral contracts).

- Per the Cap & Trade regulation, the IOUs are required to consign 100% of their allowances to auction.

- Use of auction revenues regulated by the CPUC.
Legislative Requirements Regarding Revenue Return

- The Budget Trailer Bill of 2012 (SB 1018) tightly constrained the CPUC’s discretion
- Added Section 748.5 to the Pub. Util. Code
  - (a) [T]he commission shall require revenues, including any accrued interest, received by an electrical corporation as a result of the direct allocation of greenhouse gas allowances… to be credited directly to the **residential, small business, and emissions-intensive trade-exposed retail customers** of the electrical corporation.
- SB 1018 provisions affect the “who” but not the “how”
- Previous CPUC decisions express support for preserving the carbon price signal in rates
Considerations Regarding Return to Residential Customers

• Many residential customers shielded from direct bill increases related to cap and trade
  – Statutory limitations on increasing Tier 1 and 2 rates prevent pass-through to roughly ¾ of electricity consumed
  – To recover residential share of carbon cost, Tier 3, 4, and 5 rates would be disproportionately affected

• The gap between lower- and upper-tier rates has widened enormously since 2001 (e.g., PG&E Tier 3 is 120% higher than the average of Tier 1 and Tier 2)

• To avoid exacerbating the disparity between lower- and upper-tier rates, the CPUC decided to negate the price signal that would otherwise flow through
Auction Revenue Distribution Framework

- CPUC adopted framework in Decision 12-12-033, reflecting the guidance in SB 1018
- Estimated shares of revenue dedicated to each of four approved uses:
  - 5% for EITE industries, mirroring ARB’s output-based or historical energy methodologies
  - 10% for small businesses (defined as businesses with demands of < 20 kW) as a rate reduction that decreases in compliance periods 2 and 3
  - 25% to offset residential rate increases
  - 60% (or residual after accounting for above uses) for semi-annual per household bill credits
Auction Revenue in 2013 at $16/tonne
Implications of Sinclair Paint

• The California Supreme Court’s *Sinclair Paint* decision (1997) imposes restrictions on the use of regulatory fees collected by state agencies
  – Fees must be limited to the amount necessary to achieve the regulation’s purpose
  – Fees must not be used for unrelated purposes
• *Sinclair Paint* would appear to limit the use of revenues collected by ARB to purposes that reduce GHGs
• Horowitz et al (2012) argue that revenues received by utilities should not be subject to *Sinclair Paint* because they are not “state revenues”
For additional information:
http://www.cpuc.ca.gov/PUC/energy/Climate+Change/

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