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on

Consumer Protection Provisions in Climate Legislation

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Chairman Markey, Ranking Member Upton, and Members of the Committee, I am honored to appear before you this morning to provide PG&E's views on the critically important topic of consumer protection under a climate change regime. I am pleased that this Committee is showing leadership on this very important topic by having a dedicated hearing that will advance the legislative process.

PG&E Corporation is an energy holding company headquartered in San Francisco, California and the parent company of Pacific Gas and Electric Company. Pacific Gas and Electric Company (PG&E) is California's largest utility, providing electric and natural gas service to more than 15 million people throughout northern and central California. PG&E is a recognized leader in energy efficiency and has among the cleanest mix of electric power of any utility in the country.

Our work on energy efficiency, including wide deployment of smart meters, and support of clean generating technologies are part of a broad portfolio designed to provide

advanced energy solutions to our customers. Through technology and innovation, we meet the energy needs of our customers, including residential, commercial and industrial, and provide to meet their energy needs, while providing unique opportunities for them to manage their energy use, reduce costs, promote new technologies and address climate change.

PG&E has been a leading advocate for comprehensive climate change legislation for more than a decade. As a member of the Clean Energy Group, the Business Council for Sustainable Energy, and founding member of the United States Climate Action Partnership (USCAP), PG&E has played a constructive leadership role within the utility industry and across many sectors to develop critically important policy design aimed at bringing climate change legislation to enactment as quickly as possible. Specifically, the USCAP Blueprint for Legislative Action, released in January 2009, establishes a detailed framework for climate change legislation that recognizes the paramount need for consumer protection and provides detailed policy design to ensure such safeguards.

PG&E supports a well designed economy wide, market based cap-and-trade program and along with supporting complementary programs as the best policy solution to address climate change. The design of this policy should focus on environmental certainty and the enabling factors that will help the transition to a low-carbon economy. Critical policy components must include:

- Targets and Timetables: Specific greenhouse gas (GHG) reduction requirements by a date certain will provide clear goals with environmental

certainty and ensure the price signal on carbon necessary to drive technology innovation and investment necessary to transition to a low-carbon economy.

- Scope of Coverage: Clear indication of what GHG emissions must be reduced and where in the economy to ensure that a regulatory compliance obligation will be placed at the appropriate point while balancing political and administrative feasibility.
- Cost Containment: The cap-and-trade program should include measures to protect the economy while allowing a long-term price signal that is sufficient to drive investment toward a low-carbon economy. Features to manage program costs, limit carbon price spikes and volatility, and provide long-term investment confidence should include offsets and a strategic offset and allowance reserve or, for example, price collar mechanism.
- Allocation of Allowance Value: Allowance value should be used to advance the overall objectives of the climate protection program. Legislation should provide direction for where and for what purpose allowance value will be distributed to ease the transition to a low-carbon economy, the identification and mitigation of the financial or physical requirement faced by consumers and business, and critical adaptation to the impacts of global warming.
- Incentives for Technology Development and Deployment: Funding to hasten the deployment of existing zero and low-carbon generation technologies and promote early demonstration and deployment of new breakthrough innovations that will facilitate the transformation to a low-carbon economy.

- Complimentary Policies: Supplemental policies that address emissions reductions in both the transportation sector, through, for example, fuel and vehicle performance standards, as well as encourage the adoption of energy efficiency practices in all aspects of the economy in buildings, products, and processes and also to help transform the nation's coal fleet.

Even well designed climate change legislation inclusive of the components outlined above will lead to increased energy costs as the price of carbon is passed downstream through the economy to end-users. Therefore, designing specific provisions aimed at consumer protection are essential to the long-term viability of a climate program.

We believe there are two important principles to guide inclusion of consumer protection measures into an economy wide, market-based cap-and-trade climate program. The first principle is that no single solution should nor could handle all necessary cost mitigation for consumers. The second principle is that consumer protection should be designed in a manner that is consistent with the overall goals of a climate program, specifically environmental certainty and the transformation to a low-carbon economy.

For example, we believe that adequately investing in energy efficiency, demand reduction and other programs to help low- and moderate income, small business consumers, and other vulnerable customer populations, is essential to the design of a cap-and-trade program.

For electric and natural gas consumers, we think one of the most effective, efficient and transparent ways of addressing this issue is through a carefully designed distribution of allowance value to regulated electric and natural gas local distribution companies (LDCs) on behalf of their customers and for their benefit.

Recent legislative proposals have allocated allowances to electric and natural gas LDCs for consumer benefit, recognizing that electric and natural gas LDCs are well positioned to implement programs that help customers manage their bills, and do so in a way that meets the unique needs of the communities they serve. LDCs have established relationships with each end-use customer and experience helping customers manage their energy bills. They also operate under the direct oversight of state utility commissions or governing boards. This regulatory oversight coupled with appropriate federal direction in the use of allowance value will allow Congress to ensure that the value of the allowances will be returned to consumers in a timely, targeted, and transparent manner and be used to advance the overall objectives of the climate program. Additionally, many LDCs already have existing energy efficiency and low-income energy assistance programs, many of which deliver benefits to consumers in ways that engage community-based organizations ensuring that targeted populations are receiving the assistance they need. In fact, through an approach such as this, Congress can ensure that every utility in the country has in place well designed, well functioning programs to address the needs of vulnerable populations in their communities and provide energy efficiency and demand reduction programs to all their customers.

Accordingly, we support an allocation of allowances to electric and natural gas LDCs as trustees for consumers under the following framework:

- Allowances should be allocated to LDCs. LDCs would then sell allowances and use the proceeds to buffer the economic impacts on electric and natural consumers without undermining their incentive to reduce emissions.

- Guidelines should be established by Congress to direct the use of allowance value and to require that LDCs develop plans for and provide timely and transparent reports on the use of allowance value.

- Allowance value provided to LDCs for consumer benefit should fall under the oversight of the utility regulator in the state, generally the public utility commission, or the governing board in the case of publicly-owned utilities.

- LDCs should be required to invest the revenue created by the sale of allowances solely for customer benefit, including, for example, programs to dampen or mitigate the impact to the bills of low- and moderate-income consumers (e.g., bill assistance, weatherization, etc.) and small business, and programs and actions to advance energy efficiency and demand reduction, and on-site renewable generation which will provide sustainable energy and cost savings.

While we recognize there are multiple ways to return allowance value back to consumers, we believe that directing value through LDCs is the most efficient way to increase energy efficiency program and demand reduction investments, which represents two of

the best ways to sustainably contain costs for consumers and reduce demand for electricity and natural gas. In fact, many U.S. states have comprehensive energy efficiency programs for electric and natural gas customers that deliver customer savings of $2 to 4 dollars for every dollar invested. These programs lead to significant new energy service jobs and broad economic growth. That said, we also recognize that there are significant market and regulatory barriers to realizing the full potential of energy efficiency. Without establishing and implementing well designed programs that assist consumers in making the right investment choices, the nation will not realize these savings and achieving emission reduction targets will be more costly. The established relationships that the LDCs enjoy with their customer provide the optimal distribution network for energy efficiency program dissemination.

In California, for example, the California Energy Commission has determined that for every $1 invested in energy efficiency, all customers received $2 of benefit regardless of whether or not they participate in any of our programs. This focus on energy efficiency has helped to keep bills for our customers at or below the national average. For example, according to the Edison Electric Institute, the average residential customer in the U.S. paid $98/month in 2007, compared to $74/month for PG&E (as of March 1st).

And PG&E is not alone in supporting LDC allocations as a credible and necessary consumer protection measure in a cap-and-trade program. For example, the following major organizations have shown support for this approach: the National Association of

Regulatory Utility Commissioners, American Gas Association, American Public Gas Association, United States Climate Action Partnership, Clean Energy Group, Edison Electric Institute, American Council for an Energy Efficient Economy, Natural Resources Defense Council, Environmental Defense Fund and the National Commission on Energy Policy. (Please see attached documents.).

In fact, our industry, and those that regulate it, both agree that LDC allocations are a fair and equitable means of ensuring that consumers at the end of the supply chain receive the value associated with allowances. This is because no matter where the point of regulation is placed, this is because most of the program will flow through to end use customers. That is why our industry and our regulators support an approach that directs allowance value to these consumers and allows for flexibility to meet the unique needs and circumstances of the communities and customers we serve. According to Professor Andrew Keeler at the Ohio State University from a study prepared for the National Association of Regulatory Utility Commissions (January 2008), "Commissions will not be able to influence the rates paid for electricity produced under market pricing when generation owners receive allowances at no cost. If allowances are instead allocated to [local distribution companies] in their role as entities obligated to physically provide electricity to end use loads, commissions will be able to treat symmetrically electricity produced under embedded cost ratemaking and market pricing." By providing allowances to the regulated LDCs, Congress can ensure that the value is passed trough to consumers and that the distribution of allowances will no create undue or "windfall" gains for private firms.

Electric and natural gas local distribution companies touch almost every household and business in America. LDCs are regulated entities that have an obligation to serve and whose rates and costs are regulated by public utility commissions or governing boards. LDCs are in every community, both in terms of their assets and employees. They recognize the unique needs and circumstances of those communities and understand the mechanisms for how to reach customers effectively and efficiently. For example, one of PG&E's longest-standing financial assistance programs is California Alternate Rates for Energy (CARE), which provides a 20 percent monthly discount on the bills of qualifying low- or fixed-income customers. In 2008, more than 1.1 million customers were enrolled in the program, which represents approximately 73 percent of eligible participants. We are working to reach a goal of 90 percent by 2011 through increased outreach and new partnerships with community organizations and advocates who serve low-income customers throughout northern and central California.

In addition, PG&E's Energy Partners program, administered by approved contractors, is another key program—helping eligible low-income households with free weatherization to make their homes more energy efficient by installing attic insulation and weather stripping for doors, making minor repairs such as fixing broken windows and patching walls and performing safety inspections of selected appliances. Through this program, we treated 61,000 homes in 2008— over 457,000 since 2001, and plan for significant future growth, including a target of 90,000 homes for 2009 and more than 125,000 by 2011.

We also recognize that consumers of other fuels with be affected, such as those that use home heating oil and propone, and transportation fuel consumers. Because there is no analogous entity such as a regulated LDC in these sectors, allowance value will need to be directed to states and through other mechanisms to help mitigate cost increases for these fuels, and related products. We support the inclusion of provisions that will provide states and other entities with the resources they need to help ensure a smooth transition for all consumers. We do not view the issue of how to mitigate all consumers' energy costs as an "either-or" proposition. Instead, we believe Congress should take advantage of the various effective and targeted delivery mechanisms available to help ensure that all energy consumers are helped in a timely, transparent, and targeted manner. Most importantly, Congress should utilize mechanisms that achieve the broader objectives of the climate protection program and invest in a more energy efficient future for our nation.

Our country has an historic opportunity to change the way we produce and use energy in ways that will lower the threat of climate change, improve our environment and transform our economy. Critical to the success of transformative climate change policy is ensuring the longevity of the program, and this is best ensured by thoughtful and targeted consumer protection programs. At PG&E, we believe the framework laid out in this testimony for LDC allowance allocation on behalf of electric and natural gas customers is a critical component to the success and sustainability of this vitally important legislation.

On behalf of PG&E, I want to thank you for the opportunity provided today.