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***ARB’s Cap-and-Trade Website***

Ms. Shelby Livingston

Chief - Climate Change Program Planning and Management Branch

California Air Resources Board

1001 I Street

Sacramento, CA 95812-2828

**Re: Pacific Gas and Electric Company’s Comments on the Air Resources Board Cap-and-Trade Auction Proceeds Investment Plan**

Dear Ms. Livingston:

Pacific Gas and Electric Company (PG&E) welcomes the opportunity to submit these comments on the Air Resources Board’s (ARB) Cap-and-Trade Auction Proceeds Investment Plan (Plan). PG&E appreciates ARB’s continued efforts to work with stakeholders to address implementation of the Cap-and-Trade program. While PG&E is taking no position at this time on the legal challenges to ARB’s authority to retain and invest proceeds from the auctions, these comments are offered assuming that ARB is authorized to do so. PG&E supports ARB’s goal of balancing near-term and long-term investments, and focusing investments in areas with the greatest greenhouse gas (GHG) emissions.

1. **INTRODUCTION**

PG&E’s detailed comments on the draft Plan are set forth below. The following summarizes the key issues:

* Leveraging Existing Programs for Near-term Investments
* Additional Funding Opportunities
* Recommendations for Program Administration

1. **DISCUSSION**
2. **Leverage Existing Programs**

PG&E supports the Plan’s approach to focus near-term investments on implementing projects within existing frameworks. We also support the draft Plan investment principles, particularly principle seven, which states that investments should be coordinated with other existing programs and recommends this be expanded to include administration through existing programs. California’s investor-owned utilities (IOUs) have over 35 years of expertise in delivering successful energy efficiency (EE) programs. This has been achieved in part by building the nation’s largest energy efficiency ecosystem of market participants including customers, third party implementers, trade-allies, manufacturers, retailers, governments, community organizations and schools. This model of successful EE programs has prevented millions of tons of CO2 emissions and avoided the need to build additional fossil-fueled power plants. The energy savings from the IOU EE programs are also a key element to the Assembly Bill (AB) 32 2020 goals. Close coordination with these programs will enable continuity in delivering energy savings and ensure California consumers can avoid paying for duplicative systems and infrastructure to deliver these savings.

PG&E supports leveraging existing IOU programs that serve low-income consumers (Energy Savings Assistance Program and Multi-family and Single-family Affordable Solar Housing Programs), industrial and agricultural programs for covered entities, and EE financing.

PG&E suggests the financing section include the California Public Utilities Commission (CPUC) financing programs and pilots to ensure coordination and avoid any duplication of effort.

1. **Additional Funding Opportunities**

Whole Building Energy Efficiency

In addition to the energy efficiency financing, low income programs, and EE for industrial and agricultural customers already outlined in the Plan, PG&E recommends exploring the potential to increase EE investments in buildings, such as deep retrofits to bring buildings up to code.  IOU programs are designed to provide incentives to move consumers beyond code, but as codes have become more stringent in recent years (and will become even more so as the state moves to zero net energy homes and buildings), many customers are finding that the most challenging efficiency gap to overcome is between the current state of their home or building and the required code.  Bringing an existing building up to code can prove very costly and in many cases can create a disincentive to act, which only contributes to further widening the gap. Investments that targets this gap would be beneficial and help the state meet its GHG reduction goals.

Additional Offset Protocols

ARB is currently in the process of reviewing two new offset protocols for use in the Cap-and-Trade program, an endeavor that PG&E fully supports. The additional supply generated by these new protocols, if adopted, would further support cost-containment of the cap-and-trade program, and provide additional flexibility for compliance entities to meet their compliance obligation. PG&E recommends facilitating the development of additional offset protocols through the investment of auction proceeds in research and pilot projects. Additional protocols that could be considered for adoption include those in the agriculture, ecosystems management, and waste management sectors (where uncapped). Offset projects located within California could reduce or sequester GHG emissions at the state-level, while also providing co-benefits such as job creation, co-pollutant reduction, renewable energy development, waste management, flood control, and ecosystem restoration. Furthermore, the revenue generated from offset projects developed in-state would benefit the California economy.

Cap-and-Trade revenue could also be used to support the development of sector-based offset programs such as jurisdictional REDD (reducing emissions from deforestation and degradation) or international ODS (ozone-depleting substances) projects, where a state or province develops policies and frameworks to reduce emissions from deforestation or ODS across the entire jurisdiction. Sector-based offset programs have already been identified by the ARB as a strategy for compliance with AB 32.

Modifications to the SGIP

PG&E could potentially support the use of auction proceeds to supplement or replace existing funding of the CPUC-administered Self-Generation Incentive Program (SGIP) as mentioned on page B-11 of the draft plan.  However, we would not support modifying the SGIP program to provide incentives for Combined Heat and Power (CHP) systems up to 20 MW of all technology types.

Numerous initiatives to support CHP of all sizes are already in place in California, including:

* CHP procurement targets for the three major IOUs that are met through CHP-only solicitations and other means, pursuant to the 2011 QF/CHP Settlement, for facilities larger than 5 MW;
* AB 1613 CHP power purchase agreements (PPAs) for new facilities up to 20 MW in size;
* Continued availability of PPAs priced at the IOUs’ avoided cost under PURPA, for facilities up to 20 MW in size;
* Continuation of the SGIP program for small facilities, with no minimum size for certain technologies.

The SGIP should continue to support smaller generators that interconnect at the distribution level.  Inclusion of CHP systems up to 20 MW might allow a few large customers, who already enjoy the economies of scale and access to other incentive mechanisms, to absorb a large share of SGIP funding to the detriment of smaller projects. The vast majority of larger CHP installed today involves deployment of mature technologies using fossil fuel such as reciprocating engines and gas turbines.   As such, these technologies should not receive additional subsidies of the type provided by SGIP.

Studies have found that GHG reductions from CHP are very sensitive to real-world electrical efficiencies and appropriate use of thermal output.  The ability of CHP to significantly reduce GHG emissions in California should be should therefore be well understood and carefully managed. PG&E supports efficient CHP that provides a cost-effective and reliable source of electricity to our customers and helps to reduce GHG emissions statewide.  However, we believe that additional deployment of non-renewable topping-cycle CHP has very limited long-term GHG reduction potential.

Bioenergy

PG&E recognizes that some specific projects, or technologies, may provide broader, statewide societal benefits such as water and air pollution reduction, reduced wildfire risk, forest health, job preservation/creation and watershed improvements.

While bioenergy is a viable energy source, bioenergy projects are currently less competitive than alternative renewable energy sources. As such, PG&E supports all efforts to reduce the costs of procuring renewable energy.  The Plan’s proposals to allocate funds to bioenergy projects could help in supporting the goal of cost-effective clean energy in California.  At the same time, PG&E believes use of allowance revenue for this purpose should be of a limited duration in order to help overcome development hurdles and other temporary challenges, and that they not serve as an ongoing method of rendering viable energy sources that remain uneconomic without subsidies.

RD&D Focus

In addition to the technology deployment programs described in Section A, we also support Research, Development & Demonstration. With regard to investments that would result in benefits over the longer-term, PG&E recommends a stronger focus on the RD&D phases of low-GHG technologies and practices. Such spending is widely supported by a range of academics and policy analysts and can help produce new knowledge and tools that will be needed to achieve California’s longer-term GHG reduction goals. We encourage any RD&D efforts be administered through existing programs to ensure close coordination and avoid duplication.

1. **Program Administration**

Cost-effectiveness of Investments

The Plan identifies several important guiding principles to the investment of auction proceeds. PG&E recommends that one additional principle be incorporated into the Plan, in particular for near-term investments: cost-effectiveness, presented in dollars per metric ton of GHG emissions reduced or sequestered that could be achieved or facilitated by each investment. The State Agency Greenhouse Gas Reduction Report Card shows that emission reduction volumes for many of the proposed investments can be estimated, and investment proponents should be able to provide information that would enable ARB to estimate the cost-effectiveness of each investment in a $/MT format. Information on the volume of potential reductions and the cost to obtain such reductions would support the Implementation Principles, particularly the principle of transparency in program implementation, where the Plan recommends that information on program status and outcomes be reported annually, including estimated GHG reduction benefits and the basis for those estimates, where quantifiable.

The AB 32 Scoping Plan requires the ARB to adopt emission reduction measures that are both technologically feasible and cost-effective (HSC section 38562, subd. (a) and (c)). As such, emission reduction measures supported by auction proceeds should also be both technologically feasible and cost-effective. Cost-effectiveness does not need to be the sole mechanism for prioritizing investments; however, any investments that are expected to provide relatively few emission reductions at a high cost should be more strongly supported by the other principles, such as job creation, the ability to deliver multiple co-benefits to protect human and natural resources, the ability to benefit disadvantaged communities, the ability to leverage other investment, or the potential over time to bring significant abatement at a more reasonable cost, as examples.

Accountability

With regard to the accountability of administering agencies, at the completion of a project that receives auction proceeds, or at some significant milestone, a review should take place with predetermined criteria to characterize the impact of the investment. This information could be used to inform future investment, including which supported activities should be expanded and which should sunset. The Plan provides guidance on this issue in noting that SB 1018 describes a process by which agencies may seek appropriation of funds, which include how the agency will document results to comply with AB 32. The Plan’s Implementation Principles also support this review in its emphasis on transparency.

1. **Conclusion**

Thank you for the opportunity to submit these comments. We look forward to continuing our work with ARB and other stakeholders to ensure the successful implementation of AB 32.

Very truly yours,

/s/

Judi K Mosley