

November 1, 2013

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ARB's Scoping Plan Website

Michael Tollstrup
Chief, Stationary Source Division
California Air Resources Board
1001 I Street
Sacramento, CA 95812-2828

Re: Comments on the California Air Resources Board 2013 Update to the AB 32 Scoping Plan – October Discussion Draft

Dear Mr. Tollstrup:

Pacific Gas and Electric Company (PG&E) welcomes the opportunity to submit these comments on the Air Resources Board's (ARB) initial "discussion draft" of the 2013 update to the AB 32 Scoping Plan (2013 Plan).

I. INTRODUCTION

PG&E's detailed comments are set forth below. The following summarizes our key points:

- ***Additional specificity and analysis is needed to demonstrate that AB 32 is being implemented in a cost-effective manner.***
 - ARB should transparently evaluate the abatement cost, relative cost-effectiveness, and technological feasibility of all existing measures prior to adopting the 2013 Plan, and provide itself additional time to conduct this evaluation, as needed.
 - Any specific recommendations on actions post-2020 should be made with sufficient supporting analysis.
 - The cost of abatement from complementary policies should be compared to the allowance price band created by the cap-and-trade program.
 - Policy support for technologies that can offer only limited near-term reductions—such as natural gas fired topping-cycle combined heat and power (CHP)—should be prioritized for reevaluation.
- ***In crafting the 2013 Plan, ARB should actively seek partnerships and consult with other state agencies and jurisdictions to achieve cost containment and greater global emission reductions.***
- ***A better understanding of California's methane emissions from natural gas systems is needed before moving forward with additional control measures.***

II. ADDITIONAL SPECIFICITY AND ANALYSIS IS NEEDED TO DEMONSTRATE THAT AB 32 IS BEING IMPLEMENTED IN A COST-EFFECTIVE MANNER.

A. ARB should adopt a transparent cost-based prioritization framework

At the October 24th Board hearing on the 2013 Plan, Chairman Nichols and Deputy Executive Officer Chang discussed their shared desire for stakeholders to provide detailed examples of the type of specifics they would like to see incorporated into the 2013 Plan.

In our initial 2013 Plan comments¹ PG&E provided ARB with a detailed proposal for a transparent, analytically based, decision-making framework to prioritize reduction measures and to study the impact of the recommended portfolio of measures on the California economy. In our view, AB 32 requires such an analysis for any Plan update.²

Such a thorough analysis requires a significant level of staff effort. We recommend that the Board provide itself with additional time to conduct this evaluation, as needed.

Related to this suggestion, we were encouraged to see the list of prominent Economic Advisors listed in the discussion draft. However, the expected role for these advisors remains unclear. ARB should articulate a scope and schedule for the work these advisors will provide, including:

- The timeframe for which this group will be advising ARB, both start and approximate completion dates;
- The opportunity for stakeholder input with these advisors;
- The planned use for the output and recommendations of these advisors; and
- The expected impact of this work on the final 2013 Plan.

B. Any specific recommendations on actions post-2020 should be made with sufficient supporting analysis

We recognize that AB 32 requires ARB to make recommendations to the Governor and the Legislature on how to continue reductions of greenhouse gas emissions beyond 2020.³ However, those recommendations must be predicated on rigorous and transparent analysis, particularly for how each of the recommendations relates to the core AB 32 principles of cost-effectiveness and technological feasibility. Without these specifics and supporting analytics, it is difficult for PG&E to support the “Key Recommended Actions” in the discussion draft. For example, PG&E

¹ Our August 5th, 2013 comments are available here: <http://www.arb.ca.gov/lists/com-attach/55-2013-sp-update-ws-VSUAYVYIADYBWFUm.pdf>

² AB 32 requires that the Scoping Plan “evaluate the total potential costs and total potential economic and noneconomic benefits of the plan for reducing greenhouse gases to California’s economy, environment, and public health, using the best available economic models, emission estimation techniques, and other scientific methods” (§38560.5 (d) of the Health and Safety Code).

³ 38550(c) of the Health and Safety Code

is concerned about the 2013 Plan's recommendation to evaluate the potential for expanding the Renewable Portfolio Standard (RPS) without any supporting evidence that this is the most cost-effective way to target GHG emission reductions. In addition, the 2013 Plan does not currently detail how ARB plans to on promote research and development of bioenergy generation projects. PG&E believes this requires further discussion to ensure that bioenergy investment assists the State in achieving its GHG emissions reductions goals.

Furthermore, PG&E believes the State should begin transitioning towards a technology-neutral, cost-effective clean energy policy, rather than developing additional technology-specific mandates. Californians will be best served by a clean energy policy that is wide ranging and supportive of all the tools that can reduce energy use and provide clean energy in a cost-effective manner. Our clean energy policies should consider energy efficiency, demand response, efficient combined heat and power, and renewables, as well as the wealth of carbon-free resources we already have -- like large hydroelectric facilities, and our existing nuclear power facility. All of these resources together provide a diversified clean energy portfolio to power California in a safe, reliable, and cost-effective way. Clean energy strategies that do not consider the full array of carbon-free and low-carbon alternatives will only serve to increase costs to Californians.

C. The cost of abatement from complementary policies should be compared to the allowance price band created by the cap-and-trade program

Under perfect market conditions, carbon pricing is the key element of a least-cost policy framework to reduce GHGs. The cap-and-trade program provides a known band of expected carbon (allowance) prices between now and 2020.⁴ ARB found that it is in the public interest to ensure that cap-and-trade allowance prices should not exceed the third tier of the Allowance Price Containment Reserve (APCR) (Board Resolution 12-51). PG&E proposes that the 2013 Plan compare this expected carbon price band to the dollar-per-ton abatement costs of portfolios of program-based measures. This comparison will help ARB better align the major components of the program design with respect to cost-effectiveness.

D. Policy support for technologies that can offer only limited near-term reductions—such as topping-cycle combined heat and power (CHP)—should be prioritized for reevaluation

A key purpose of the updates to the Scoping Plan should be to reevaluate existing measures and ensure they remain useful in achieving California's long-term climate goals. We were encouraged to see ARB, in some cases, specifically acknowledge that some measures from the 2008 plan are "not feasible at this time," either because the measure is not needed to achieve the desired level of economy-wide abatement, not progressing in a cost-effective fashion, facing other implementation challenges, or being replaced by reductions from offset credit protocols

⁴ This price band is implemented through the "Auction Reserve Price" and the "Allowance Price Containment Reserve".

(for examples see Table 12 of the discussion draft). ARB should transparently evaluate each program to determine if some measures are no longer needed.

PG&E supports affordable bottoming-cycle and renewable-fueled CHP as part of the State's long-term GHG reduction strategy. PG&E also believes that any technologies or programs that offer limited near-term reductions, but may be net GHG-emitting over the long-term, should be watched especially closely. Topping-cycle CHP may fall into this category. We recommend that ARB and other state policymakers reexamine the current megawatt targets for CHP and take a more active role in establishing minimum GHG performance criteria for CHP systems. ARB should also make public the greenhouse gas performance of existing CHP facilities it collects through the GHG mandatory reporting program at a level of aggregation consistent with protecting business-sensitive information.

III. IN CRAFTING THE 2013 PLAN, ARB SHOULD ACTIVELY SEEK PARTNERSHIPS AND CONSULT WITH OTHER STATE AGENCIES AND JURISDICTIONS TO ACHIEVE COST CONTAINMENT AND GREATER GLOBAL EMISSION REDUCTIONS

At the October 15 Scoping Plan Update workshop, staff acknowledged that future targets should "align with targets under consideration elsewhere in the developed world." The discussion draft of the 2013 Plan also contains a discussion of how to best promote interstate, federal, and international policy coordination. In addition, the Pacific Coast Action Plan on Climate and Energy calls for harmonizing 2050 targets for GHG reductions and develop mid-term targets needed to support long-term reduction goals. The recommended activities in the 2013 Plan should include efforts to actively seek partnerships and consult with other state agencies and jurisdictions to achieve greater global emission reductions at lower costs. This will help ensure that the recommended policy actions outside of ARB's jurisdiction will be reasonable and in supporting ARB's emissions reductions goal.

PG&E strongly supports California taking a leadership role on this issue, but urges ARB to provide a model that other jurisdictions will want to adopt. The best way to accomplish this is through continuous improvement to California's program design built on solid analytics, a transparent stakeholder process, and clear, well-reasoned improvements to the Plan at regular intervals.

IV. A BETTER UNDERSTANDING OF CALIFORNIA'S METHANE EMISSIONS FROM NATURAL GAS SYSTEMS IS NEEDED BEFORE MOVING FORWARD WITH ADDITIONAL CONTROL MEASURES

The 2013 Plan notes that ARB is conducting research to determine the source of higher-than-expected ambient methane measurements, and is assessing whether additional controls on methane emission sources are technologically feasible and cost effective.

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PG&E has reported methane and other GHG emissions from its natural gas transmission, distribution, and storage systems voluntarily through The Climate Registry (TCR), as well as in accordance with mandatory ARB and U.S. Environmental Protection Agency (EPA) reporting programs.

From the reporting that PG&E and other California entities have completed, the 2013 Plan shows that natural gas transmission, distribution, and storage systems emit a relatively small portion of the state's anthropogenic methane emissions.

Because many of the population and leaker emission factors used in reporting methane emissions from natural gas systems have a wide range of uncertainty, and because not all significant sources are required to be reported, PG&E encourages ARB to strengthen its efforts to better understand the sources and volume of methane emissions in California before moving forward with additional control measures. PG&E is committed to working with ARB on this issue, and is currently participating in a study on measuring methane emissions from the component parts of natural gas local distribution systems in order to estimate and update a national leak rate for local distribution systems. This study is part of a larger effort sponsored by Environmental Defense Fund to accurately assess methane emissions along the natural gas supply chain.

V. 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/

Mark Krausse

cc: Richard Corey
Edie Chang
Steve Cliff