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August 11, 2011

***E-Filing
ARB's Cap-and-Trade Website***

Clerk of the Board
California Air Resources Board
1001 I Street
PO Box 2815
Sacramento, CA 95812

Re: Pacific Gas and Electric Company's Comments on the Air Resources Board's
July 25, 2011 Proposed Modifications to the Mandatory Reporting Regulation

Clerk of the Board:

Pacific Gas and Electric Company ("PG&E") is pleased to submit these comments on the Air Resources Board's ("ARB") proposed amendments to the Regulation for the Mandatory Reporting of Greenhouse Gas Emissions, released July 25, 2011 under Assembly Bill 32 ("AB 32"). PG&E will be submitting comments on the proposed modifications to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms under separate cover.

PG&E appreciates ARB's continued efforts to harmonize its regulation with federal regulations issued by the U.S. Environmental Protection Agency ("EPA") and to streamline GHG reporting. PG&E encourages ARB to release a prototype of the new reporting tool in the near future and make it available for public comments. Since 2008, PG&E has been reporting with the existing tool and is interested to see revisions that ARB plans to make, which will change the manner in which information is collected. A preview of the tool will help ensure more accurate and timely compliance.

SUMMARY OF RECOMMENDATIONS

PG&E has identified a number of instances in which further clarification or adjustments are recommended.

- Various definitions in the regulation should be clarified;
- The calibration requirement should be modified to accommodate facilities that become subject to the regulation for the first time;
- Data requirements and calculation methods set forth in section 95111 should be clarified;
- ARB should provide a method of verifying adjustments for large customer load; and

- Metering should not be required on all pneumatic devices on critical safety systems.

DISCUSSION

SECTION 95102. VARIOUS DEFINITIONS SHOULD BE CLARIFIED.

There are several definitions, which, as currently written, can be interpreted in such a way that causes concern to PG&E from an operational and compliance perspective. Without additional clarification, the regulation will be difficult to accurately implement and may cause inadvertent non-compliance issues. Once the terms are more clearly defined, ARB should consider the use of one glossary for both the Mandatory Reporting and Cap and Trade Regulations to ensure consistency and completeness.

Written Contract. The proposed regulation uses the term ‘written contract^{1/}’ in a few places, but it is not defined in section 95102 (or anywhere else). PG&E’s bilateral trading utilizes the Western Systems Power Pool Agreement (WSPP) for transactions. Under WSPP, transactions that are conducted electronically or over the phone are also considered to be written contracts. PG&E’s understanding of “written contract” would include contracts executed with documentary and electronic writings. PG&E’s preference is for the definition of written contract to include any type of communication means, including but not limited to voice recorded, electronically executed and written communication. In addition, the definition for written contract should include any type of contract duration.

Farm Tap. Section 95102(a)(141) defines “farm tap” as follows:

“Farm taps” means pressure regulation stations that deliver gas directly from transmission pipelines to generally rural customers. The gas may or may not be metered, but never pass through a city gate station. In some cases a nearby LDC may handle the billing to the customer(s).

PG&E has more than 6,000 miles of gas transmission pipelines, with thousands of farm taps (points with one or two connected services downstream of a regulator) on its transmission system. PG&E receives gas at the California border from various interstate pipelines that are defined as city gate stations pursuant to section 95102(a)(68). Defining “farm tap” in relation to the location of the city gate is not workable because virtually all farm taps on PG&E’s system are downstream of a city gate station. Therefore, PG&E suggests refining the definition of farm tap as follows:

“Farm taps” means pressure regulation stations that deliver gas directly from transmission pipelines to generally rural customers. The gas may or

^{1/} See, e.g., definitions for Specified Source of Electricity and Verification Data. The term is also used in sections 95111(a)(4) and 95131(b)(6) Electricity Importers and Exporters.

may not be metered, ~~but never pass through a city gate station.~~ In and in
some cases a nearby LDC may handle the billing to the customer(s).

Modifying this definition will be consistent with industry practice where farm taps are generally interconnections with one or two gas services from high pressure transmission lines.

Replacement Electricity. Since replacement electricity can be sourced from resources other than the underlying renewable resource, the requirement that replacement energy should be derived from the same balancing authority is unwarranted. In addition, while replacement electricity could be provided in order to meet hourly load requirements, it is also possible for replacement electricity to be delivered at a fixed rate without regard to hourly load requirements. Replacement electricity should also apply for baseload renewable resources. PG&E suggests modifying the definition in section 95102(a)(336) as follows:

“Replacement electricity” means electricity delivered to a first point of delivery in California to replace electricity from ~~variable~~ renewable resources ~~in order to meet hourly load requirements~~. The electricity generated by the ~~variable~~ renewable energy facility and purchased by the first deliverer is not required to meet direct delivery requirements. ~~The physical location of the variable renewable energy facility busbar and the first point of receipt on the NERC E-tag for the replacement electricity must be located in the same balancing authority area.~~

Exported and Imported Electricity. Sections 95102(a)(138) and 95102(a)(200) both refer to “energy being delivered to serve load.” When PG&E exports power to another party, or when PG&E imports power onto the CAISO grid, it is not known where the power is being delivered. Presumably, the energy would eventually serve load, but since the ultimate destination of the electricity is not always known at the time of import or export, PG&E recommends removing the term “to serve load” in both of these definitions.

Specified and Unspecified Sources of Electricity. PG&E requests that the definitions set forth in sections 95102(a)(354) and 95102(a)(389) clarify that the compliance obligation is based on the source of electricity that is specified at the time the transaction is executed, so PG&E will use the emission factor of the source that was agreed to at the time the contract was executed. For example, if PG&E purchases unspecified physical power in the market, it should be assessed the unspecified emissions factor since that was priced in during the transaction, regardless of what resource shows up on the resulting e-Tag.

Other Definitions. Other subsections of section 95102(a) that require additional clarification in the definitions are detailed below:

- ***Asset-Controlling Supplier (17).*** Clarification is needed to determine what suppliers (other than BPA) would meet the definition of asset-controlling supplier.

- ***Electricity Importers (118)***. The last sentence of the definition reads, “When the PSEs are not subject to the regulatory authority of ARB, the electricity importer is the immediate downstream purchaser or recipient that is subject to the regulatory authority of ARB.” It is unclear whether this leaves PG&E responsible when electricity is imported into California by a non-jurisdictional entity and then purchased by PG&E inside California. This type of scenario may occur when PG&E purchases energy at a CAISO intertie that is physically located inside California and then imports into the CAISO grid. This may also occur when a PSE that is not subject to the regulatory authority of ARB bids energy into the CAISO market and receives a market award at a CAISO intertie inside or outside the state of California. Since the CAISO would be the immediate downstream recipient of the energy in this scenario, the CAISO would presumably be required to report the emission obligation for the import. In light of these concerns, PG&E urges ARB and the CAISO to review the regulation and the CAISO's tariff to ensure that the proposed regulatory approach is accurate and can be implemented successfully.
- ***Qualified Exports (318)***. The definition of a qualified export is synonymous with the concept of a wheel-through as described in 95111(a)(9), since neither would be subject to a compliance obligation, and both constitute an import and export within the same hour of delivery. PG&E proposes that the following sentence be added to the definition of qualified export: “A qualified export is also known as a wheel-through.”
- ***Substitute Electricity (362)***. It is not clear how this definition differs from replacement electricity. It seems that replacement electricity is associated with renewable resources, while substitute electricity is associated with non-renewable specified resources. At a minimum, ARB should consider clarifying the two definitions, although substitute electricity isn't widely used in the MRR or CNT.^{2/}

SECTION 95103(k)(1). THE CALIBRATION REQUIREMENT SHOULD BE CLARIFIED.

Section 95103(k)(1) requires that monitoring and sampling devices must be calibrated prior to the year data collection is required to begin. However, there may be facilities that are required to report emissions starting in a given year, but it may not be known until after that year that the facility meets the minimum reporting criteria. Therefore, PG&E suggests that the calibration requirement be adjusted to accommodate entities that become subject to the mandatory reporting requirements for the first time due to an increase in their natural gas usage. One way to accomplish this would be to require that the calibration is completed before the first verification process for a facility and that the documentation be reviewed during this first verification process.

^{2/} See reference to “substitute electricity” referenced in section 95111(g)(5).

SECTION 95111. ARB SHOULD CLARIFY DATA REQUIREMENTS AND CALCULATION METHODS.

Subsection 95111(a). PG&E seeks confirmation that those entities with operational control as defined in section 95102(a)(271), would be responsible for reporting the emissions associated with: (1) in-state fossil-fired tolling agreements, and (2) hydroelectric facilities, as applicable.

Subsection 95111(a)(3)(C), “Imported Electricity from Unspecified Sources,” states that unspecified power should be separately reported when imported in the form of replacement electricity. However, subsection 95111(g) states that replacement electricity may also be claimed as specified power. It is not clear whether ARB expects replacement electricity to be reported as a specified import at the specified emissions rate of the underlying renewable resource or if replacement electricity should be reported as an unspecified import at the specified emissions rate of the underlying renewable resource.

We propose that ARB clarify that replacement electricity can be imported in the form of either specified or unspecified power, as follows: If replacement electricity is imported in the form of specified power, then it would be reported as a specified import, but it would only be assessed an emission obligation amounting to the **positive** difference between the unspecified rate of .428 metric tons per MWh and the emission rate of the specified import (i.e. (emission obligation of specified import as measured in metric tons per MWh) minus (.428 metric tons per MWh)). To the extent that the specified import has an emissions rate of less than .428 metric tons per MWh, then the specified import would be assessed an emission obligation of the underlying renewable resource, which would be zero). If replacement electricity is imported in the form of unspecified power, then it would be reported as an unspecified import and would be assessed an emission obligation of the underlying renewable resource, which would be zero.

Subsection 95111(a)(5), “Importing Electricity from Asset-Controlling Suppliers,” would benefit from two clarifications. First, PG&E seeks confirmation that this section applies to Asset-Controlling Suppliers only and not to Buyers of energy from an Asset-Controlling Supplier. Second, as noted above in the definitions section, it is unclear whether any entity other than BPA would be considered an asset-controlling supplier.

Subsection 95111(a)(6), “Exported Electricity,” states that emissions must be reported for exports. However, if the electricity is being exported from the CAISO grid, unit specific information is not currently available from CAISO. PG&E recommends the following edits:

“Exported Electricity. The electric power entity must report exported electricity in MWh and, only if available, associated GHG emissions in MT of CO₂e, aggregated by each final point of delivery outside the state of California...

Subsections 95111(a)(6) and (a)(9). As noted above in the definitions section, a Qualified Export and a Wheel-Through should be considered the same, since neither would be subject to a compliance obligation, and both constitute an import and export within the same hour of

delivery. If ARB adopts PG&E's proposed definition of qualified export as including a wheel-through, PG&E recommends removing 95111(a)(9), Electricity Wheeled Through California, because qualified exports are addressed for reporting purposes in 95111(a)(6)(E).

Subsection 95111(b). To calculate GHGs from specified imported electricity, ARB notes that it will provide a unit specific emission factor for such delivery on its website. PG&E would like to know when this factor will be available.

SECTION 95112. PG&E SUPPORTS ARB'S CHANGES IN REPORTING FOR COGENERATION FACILITIES.

PG&E supports changes that staff has made on reporting for cogeneration as a good balance between collecting necessary information, being consistent with the cogeneration regulatory paradigm, and preserving the flexibility to pursue GHG emissions reductions from cogeneration or combined heat and power. PG&E commends the ARB staff on its commitment to working with stakeholders and incorporating comments.

PG&E strongly supports staff's efforts to have cogeneration facilities report additional information on utilization of thermal energy, including a one-time obligation to report a block diagram showing disposition of thermal energy. This diagram and information on steam utilization will serve as a point of reference for staff assistance to reporters, verification and audits, and will provide information about unit aggregation and waste heat utilization. The changes in the definition and reporting of thermal energy should enable the ARB to better understand when thermal energy is being utilized rather than being vented or discharged without use. The addition of other facility identification information will enable the ARB and verifiers to cross check information reported to the ARB with information reported to the EIA, FERC, and the CEC. In sum, the changes in the 95102, 95104, and 95112 better align the ARB Reporting Regulation with the QF/CHP Settlement and FERC regulations and provide a better starting point on understanding how thermal energy is actually used.

SECTION 95122 (b)(7). ARB SHOULD PROVIDE FOR VERIFICATION OF ADJUSTMENTS FOR LARGE CUSTOMER LOAD.

Section 95122(b) sets forth the calculation of GHG emissions, which is based on federal regulations contained in 40 CFR §98. ARB will adjust PG&E's reported totals to reflect gas usage by large customers who report their own usage to ARB. To ensure that this process is completed accurately, PG&E suggests that the gas usage that is subtracted from PG&E's reported totals be verified during the annual verification process. This could be done in one of two ways. The verifier could compare PG&E meter data for large customers who report their own usage to the amount subtracted by ARB and report the results. Alternatively, ARB could provide PG&E the amounts subtracted for each customer, and PG&E could compare the adjustments to its billing data.

SECTION 95153(a). PNEUMATIC DEVICES ON CRITICAL SAFETY SYSTEMS SHOULD BE EXEMPT FROM THE METERING REQUIREMENT.

Section 95153(a) requires natural gas meters be installed on all pneumatic high bleed devices and pneumatic pumps by January 1, 2015. PG&E continues to believe that ARB should exempt critical safety systems from pneumatic device metering requirements in § 95153(a) when the installation of metering devices on these controls could impact the reliability and functionality of natural gas facilities. Typical critical safety systems on the PG&E gas system include pressure regulation and over-pressure protection devices and valves used for the emergency isolation and/or evacuation of stations or pipeline segments. PG&E's primary concern is that by adding meters to these systems, an additional point of failure is introduced, which could reduce the reliability of critical safety systems.

If ARB is concerned that an exemption for critical systems would be unclear or difficult to administer consistently, PG&E proposes that a process be established to enable an entity to obtain an exemption from ARB on a case-by-case basis. If the final ARB regulation requires installation of meters at all high bleed pneumatic devices, PG&E suggests that the January 1, 2015, deadline be extended to allow a phase-in of meter installation over a two-year period starting on January 1, 2015. Extending the deadline would also allow reporting entities to identify equipment located on critical safety systems and work with ARB to obtain an exemption.

MINOR TYPOGRAPHICAL ERRORS

PG&E has noted the following minor typographical errors that should be corrected in the final version of the regulation:

- In section 95111(a), subsection (7) was skipped.
- In section 95153(h), the reference to 40 CFR § 98.233(j) should be corrected to refer to §98.233(i)

PG&E appreciates the opportunity to comment on the revised mandatory reporting regulation, and we look forward to continue working with the ARB and all concerned stakeholders to ensure the successful implementation of the cap-and-trade program.

Very truly yours,

/s/

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