Pacific Gas and
Electric Company ™

John W. Busterud
Director and Counsel
Environmental Affairs

Mailing Address
P.O. Box 7442
San Francisco, CA 94120

Street/Courier Address
Law Department
77 Beale Street
San Francisco, CA 94105

(415) 973-6617
Fax: (415) 973-0516
Internet: JWBb@pge.com

June 26, 2009 **VIA E-MAIL**

Kevin M. Kennedy, Ph.D.
Chief, Program Evaluation Branch
Office of Climate Change
California Air Resources Board
1001 I Street
Sacramento, CA 95814-2828

Re: Pacific Gas and Electric Company's Comments on the California Air Resources Board Staff's June 5, 2009 Workshop on Accounting for Imported Electricity in a California Cap-and-Trade Program

Dear Dr. Kennedy:

Pacific Gas and Electric Company ("PG&E") welcomes the opportunity to provide these comments on the California Air Resources Board Staff's ("ARB") presentation at the June 5, 2009 workshop on treatment of imported electricity in a California cap-and-trade market for emissions of greenhouse gases ("GHG").

PG&E is committed to working with the ARB, other State agencies and concerned stakeholders to make AB 32 a success and a model for emerging regional and national GHG reduction programs. We commend ARB Staff for their efforts on the treatment of electricity imports in a California cap-and-trade market.

For electricity imports under a California cap-and-trade system, Staff raised the following subject areas at the workshop:

A. Who should be responsible for GHG compliance for imported electricity?
B. How should losses associated with electricity imports be treated?
C. What GHG emission rate should be applied to imported electricity?
D. Which criteria should be used to determine a default emission rate for electricity imports from unspecified sources?

PG&E discusses these areas in turn below.

A. Who should be responsible for GHG compliance for imported electricity?

ARB Staff discussed assigning GHG compliance responsibility to the First Jurisdictional Deliverer (FJD). The FJD is generally the entity that owns the electricity as it is brought to the first point of delivery inside California. With the exception noted below, PG&E supports the FJD approach.

The exception involves electricity imports by entities that are not subject to California jurisdiction. Such an entity could import electricity into California and sell it at a California hub. Normally the seller would have GHG compliance responsibility, but if the seller is not subject to California jurisdiction, under FJD the GHG compliance responsibility would be assigned to the purchaser. The threat of passing compliance responsibility to the purchaser may be damaging to normal commercial activity, such as electricity hedging. Rules for the transfer of compliance responsibility would be complex, especially if the non-jurisdictional entity sells electricity into a pool, rather than to a distinct single purchaser.

To the best of PG&E's knowledge, electricity imports into California by non-jurisdictional entities have been very small. In the interests of simplicity and time, PG&E suggests that a rule specifically to handle imports by non-jurisdictional entities should be delayed, and undertaken only if imports by non-jurisdictional entities prove to be significant.[1/]

B. How should losses associated with electricity imports be treated?

Under Assembly Bill 32, the accounting for greenhouse gas emissions must include the losses associated with bringing electricity imports into California [Health and Safety Code section 38505(m)]. Under a California-only cap-and-trade program, Staff is considering including losses associated with "unspecified" imports by assigning a loss factor.[2/]

Losses vary with electricity flow and differ between transmission lines. Allocating losses to specific transactions would be complex and controversial. In the interests of simplicity and minimal impact on commercial transactions, PG&E suggests application of a uniform loss factor to all electricity imports from unspecified sources. PG&E suggests a loss factor of 4% based on typical losses between California and load centers in the Pacific Northwest and Desert Southwest.

C. What GHG emission rate should be applied to imported electricity?

PG&E believes that a relatively simple process would be workable and avoid impeding commercial activities. The first step would be to quantify imports using data already on NERC

1/ A similar proposal was introduced in the Western Climate Initiative, where it was dubbed "clean hubs". In a California-only cap-and-trade program, "clean hubs" would mean that an entity purchasing electricity at a hub within California would be assured that there would be no subsequent need to surrender GHG allowances. Instead, allowances would be surrendered by the source of electricity, except in the case of imports by non-jurisdictional entities.

2/ Unspecified imports are defined as those that cannot be traced back to a specific generating unit.

e-tags showing (a) how many MWh were imported on each path and (b) which entities owned the electricity as it was brought to the first point of delivery in California. For the imports, the second step would be to use ownership and contract data to determine which imports can be tracked to specified generating units. For the remaining imports, an importing entity could match Renewable Electricity Credits from the WREGIS system to imported electricity to assign zero GHG to those MWh. Any unspecified imports and losses not covered by RECs would be assigned a default emission rate.

D. Which criteria should be used to determine a default emission rate for electricity imports from unspecified sources?

PG&E believes that accuracy and commercial workability should be important criteria. The default rate should reflect the emissions that occur due to California's imports of electricity. The default rate should be fixed far enough in advance to avoid being an uncertainty that would impede commercial activity. The default rate should not be changed after the fact for wet or dry hydroelectric conditions.

Thank you for the opportunity to submit these comments. We look forward to working constructively with ARB, other state agencies, concerned stakeholders, and members of the public to tackle the challenge of global climate change and to ensure the successful implementation of AB 32.

Very truly yours,

/s/

John W. Busterud

JWB:kp

cc: Claudia Orlando (via e-mail)