

December 10, 2015

Ms. Mary Jane Coombs
California Air Resources Board
1001 I Street
Sacramento, CA 95812-2828

Dear Ms. Coombs,

Below are additional thoughts from Pacific Gas and Electric Company (PG&E) regarding the upcoming December 14 workshop on potential 2016 amendments to the Cap-and-Trade Regulation. The comments below focus specifically on potential changes to the RPS adjustment provisions contained within the Regulation.

The October Joint IOU Proposal for RPS Amendments Strengthens the Environmental Integrity of the Cap-and-Trade Regulation and is Consistent with the 2010 FSOR

- In adopting the RPS Adjustment, ARB addressed concerns regarding environmental integrity and leakage by prohibiting the use of “tradable” or “unbundled RECs” for the purpose of the RPS adjustment.
 - The Regulation addresses this concern by requiring ownership or contract rights to procure the associated electricity **and** the RECs (Section 95852(b)(4)).
 - The Joint IOU Proposal, filed on October 19, seeks to strengthen ARB’s requirements.
 - RPS Adjustment claims are prohibited where the first deliverer of electricity has title to the **electricity and the associated RECs** for a renewable resource directly delivered to the state.

- In the 2010 FSOR, ARB stated that allowing for the sole use of a REC, without the electricity, to reduce an entity’s compliance obligation would result in inaccurate accounting of emission reductions attributable to the electricity sector.
 - Similarly, overlooking REC ownership where corresponding electricity is delivered results in an inaccurate accounting of electricity sector emissions reductions.
 - The Joint IOU proposal provides the RPS adjustment to the electricity importer with the title to the REC.
 - Ensuring that only the party who owns the environmental attributes associated with the imported electricity may claim carbon benefits removes the potential risk of double counting that claim.
 - We agree with ARB’s statement in the 2010 FSOR that “...not all RPS electricity reduces GHG emissions” and would support a regulatory clarification that only RECs generated by zero-emitting resources are eligible for the RPS adjustment.

The RPS Adjustment is Needed to Preserve the Value of Current and Future Firming and Shaping Transactions

- The RPS adjustment maintains the value of current and future firming and shaping arrangements intended to provide flexibility in managing and delivering zero-emitting RPS procurement from generation facilities located outside California balancing authority areas.
- These transactions have been authorized by the California legislature as a distinct and integral RPS procurement category for California electric utility customers. They also act as a key cost-containment mechanism under California's RPS program.
 - The legislature authorized a portion of the renewable electricity generated during each RPS compliance period to be met with firming and shaped products with the intention of achieving balanced retail seller portfolios.
- Such firming and shaping transactions, as defined in Section 399.16(b)(2) of California's Public Utilities Code and known as procurement content category 2, are one of three products that can be used to comply with California's RPS rules.
 - The CPUC defined such transactions in Decision 12-06-038 (Section 3.6.1 beginning on page 44). A key element of the CPUC's definition is the buyer's simultaneously purchase of energy and associated RECs from the RPS-eligible generation facility without selling the energy back to the generator. The other element is the requirement to contract for substitute energy to fulfil the scheduling of RPS-eligible generation into a California balancing authority.
- Assigning utilities a GHG compliance obligation for out-of-state renewable firming and shaping transactions would inappropriately reduce the benefits of this RPS procurement category for California customers and impair the value of procurement, and make California's aggressive 2030 GHG and RPS Targets more difficult and costly to achieve.

Removing the RPS Adjustment Would Increase Costs to Utility Customers Despite Renewable Procurement Activities

- Requiring Californians to purchase allowances for renewable investments will increase costs to utility customers.
 - Californians would be forced to pay higher costs for electricity, and higher costs for Cap-and-Trade compliance.
 - Rates would increase due to increased need for compliance instruments despite procurement of zero-emission renewable resources.
 - GHG prices would increase economy-wide due to increased demand for allowances.
- Ensuring that only the party who owns the environmental attributes associated with imported electricity may claim the RPS adjustment removes any potential risk of double counting.

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Thank you very much for your consideration.

Sincerely,

/s/

Claire Halbrook

Climate Policy Principal

Pacific Gas and Electric Company