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February 19, 2008

Ms. Mary Nichols, Chair  
CALIFORNIA AIR RESOURCES BOARD  
1001 "I" Street  
P. O. Box 2815  
Sacramento, CA 95812-2828

**Re: Voluntary Early Action Policy to Reduce Greenhouse Gas Emissions**

Dear Chair Nichols:

Pacific Gas and Electric Company ("PG&E") believes that encouraging early voluntary action to reduce greenhouse gas ("GHG") emissions prior to the 2012 implementation date of AB32 will be critical to meeting GHG reductions goals for 2020 and beyond. PG&E requests that the California Air Resources Board ("CARB"), along with stakeholders, develop a mechanism giving entities certainty of recognition of voluntary early actions that produce verifiable emissions reductions. This letter describes a proposal for "banking" of voluntary emissions reductions undertaken prior to 2012 that we urge CARB to adopt as soon as possible. This banking mechanism will enhance AB32 by achieving an early start on emissions reductions and by helping to manage the cost of meeting our GHG reduction goals.

Staff's draft Policy Statement acknowledges the importance of voluntary early actions. At its January 2008 Scoping Plan Workshop, Staff noted CARB's goal of providing sufficient assurance "to those currently considering taking action that they will benefit from emission reduction projects undertaken during development of the Scoping Plan and implementing regulations." In contrast, the Policy Statement currently states that CARB can provide "no guarantees about how voluntary early actions will be recognized" until the scoping plan and implementing regulations are finalized. We are concerned that if CARB waits for regulations to be finalized before providing entities certainty as to the accounting of voluntary early actions, it may have the unintended impact of causing project sponsors to postpone or delay certain mitigation measures and cutting edge initiatives.

PG&E therefore recommends that CARB modify the Policy Statement to reflect a plan to expeditiously authorize and implement an emissions reduction banking system with clear underlying rights that will enable entities to develop verifiable emissions reduction projects



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and “bank” the reductions from those projects prior to 2012. This mechanism should allow entities to “bank” and “carry forward” emissions reductions that they have achieved due to specific identified projects or programs, and “credit” those reductions against post-2012 emissions reduction requirements (either as direct “credits” or converted into “allowances”). This regulatory initiative will encourage greater certainty in the emerging California climate program and stimulate investment in future carbon markets.

Emissions credits that are banked should be environmentally additional, permanent, verifiable, enforceable, and measurable GHG reduction opportunities. To ensure as much meaningful action as quickly as possible, CARB should recognize reductions achieved in accordance with broadly respected and rigorous protocol sources, such as the UNFCCC Executive Board Clean Development Mechanism and the California Climate Action Registry. By using protocols that are well established and widely recognized, entities can start creating GHG emissions reductions sooner, helping to minimize long-run costs to California citizens.

Examples of actions entities may take now to lower GHG emissions include PG&E’s programs to convert engines used for agricultural pumping from diesel fuel to electricity and capturing digester gas and converting it into pipeline quality methane. California Public Utilities Commission (“CPUC”) Decision 05-06-016 approved PG&E’s application to motivate agricultural customers to convert engines used for agricultural pumping from diesel fuel to electricity, a program expressly supported by CARB. In D. 05-06-016, the CPUC retained the value of the GHG emissions reductions for PG&E customers, who are paying for the program. The CPUC stated, “ratepayers will be protected from excessive costs because . . . any CO<sub>2</sub> emission reductions resulting from the conversion program will remain ratepayer property.” PG&E’s initial estimates on the GHG savings are that they are over 100,000 tons of CO<sub>2</sub> per year. As intended by the CPUC and supported by CARB, PG&E would like to start banking these emissions reductions for use during the AB 32 compliance period to benefit the customers paying for the program.

As another example of potential for early action, PG&E has pursued contracts to purchase biogas from organic wastes converted into pipeline quality methane. PG&E has retained the option to purchase the emissions reductions resulting from the capture of the methane. If banking were allowed, these quality in-state GHG reductions could be used for the benefit of the California customers. The ability to bank would encourage other entities to pursue emissions reductions projects. Already, others are looking to emulate PG&E’s leadership in pursuing biogas contracts. (e.g., See “Palo Alto Thinks Manure May Make Green Gas”, *Contra Costa Times*, February 18, 2008.)



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With timely and effective authorization to bank early emissions reductions, California has a leadership opportunity in the emerging GHG market, allowing entities to gain experience in GHG emissions reductions project development while facilitating early reductions. PG&E recommends that CARB state in the Policy Statement the intention of allowing entities to bank GHG credits using recognized protocols and convene workshops soon to develop this program.

PG&E appreciates the opportunity to provide these comments and looks forward to working with CARB to ensure the successful implementation of AB 32. If you have any questions or if we can be of further assistance, please do not hesitate to call me at (415) 973-6617 or Soumya Sastry at (415) 973-3295.

Very truly yours,

A handwritten signature in purple ink, appearing to read 'John W. Busterud', with a large loop at the end of the signature.

John W. Busterud

JWB:bd

cc: Mr. James Goldstene, Executive Officer - CARB  
Mr. Chuck Shulock, Chief – Office of Climate Change, CARB  
Ms. Edie Chang, Chief – Program Planning & Management Branch, CARB  
Mr. Kevin Kennedy, Chief – Program Evaluation Branch, CARB