



**Pacific Gas and
Electric Company™**

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September 4, 2009

Dr. Kevin Kennedy
Assistant Executive Officer
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Pacific Gas and Electric Company's Comments on the California Air Resource Board
Staff's Proposed Criteria for International Offsets in a California Cap-and-Trade
Program

Dear Assistant Executive Officer Kennedy:

Pacific Gas and Electric Company ("PG&E") welcomes the opportunity to provide these preliminary comments in response to the California Air Resources Board (ARB) staff's July 30, 2009 workshop on International Offsets in a California Cap-and-Trade Program. We appreciate ARB's efforts to begin the process of investigating the use of international offsets for compliance with AB32. In particular, we appreciate staff's approach to identifying opportunities and barriers to provide an adequate supply of international offset projects at the start of the first compliance period. International offsets are an essential component in California's transition to a low carbon economy.

PG&E has three comments regarding items proposed by the ARB at the workshop:

- A. International offsets are an important part of a cap-and-trade program and reduce costs to California businesses and consumers.
- B. Project protocols and processes need to be consistent between different programs and geographies.
- C. Adopt existing rigorous international protocols.

A. International offsets reduce costs to California businesses and consumers

It is imperative that a sufficient supply of high quality offsets is available to mitigate the cost to customers, especially in the first compliance period of the program. A June 23 economic analysis of the Waxman-Markey bill by the U.S. EPA found that "offsets have a strong impact

on cost containment.”^{1/} The analysis further indicates that without international offsets the cost of compliance would be 89% higher. International offset projects offer a bridge to a low carbon California economy while encouraging other countries to take steps to protect their natural resources and reduce their carbon footprint.

B. Promote consistent standards

To maintain a fluid market, offset protocols should be uniform across state, regional, and national schemes. Having states set their own standards will not lead to a liquid offset market. On the contrary, creating a complex patchwork of inconsistent state and provincial level offset policies would undermine the primary intent of having an offsets system – i.e., to provide a viable cost-containment mechanism for cap and trade. If developers find California rules too confusing or inconsistent with regional offset rules or other widely recognized protocols, they may not develop projects for the California market. A segmentation of market rules will mean that developers will have a hard time taking advantage of lessons learned from previous projects for economies of scale, driving up offset costs.

We suggest ARB work with regional initiatives, such as WCI, as well as the federal government to ensure that the projects available to meet AB 32 requirements are fully fungible. Given that offset investments are long-term contracts, it is critical for us, as well as project developers, to have certainty that the value of a project is realized over the full life of the project.

C. Adopt existing international protocols

To provide for an adequate supply of international offsets, the ARB should develop a single, rigorous process that takes into consideration the work done by the Climate Action Reserve (Reserve) and regional initiatives as well as work done under the United Nations Framework Convention on Climate Change. The ARB’s process should give priority to those international projects that can provide early, high-quality offsets that are real, additional, verifiable, permanent and enforceable.

PG&E recommends that the ARB give priority to standards-based project protocols while allowing for the flexibility to allow individual projects a process for consideration. As stated in our June 19, 2009 offset comments, PG&E encourages the ARB to review and adopt protocols already established in the offset market, such as the Reserve, rather than replicating this work. The Reserve protocols have already addressed and resolved questions about making offsets real, permanent, additional, and verifiable. In July, the Reserve adopted the first set of international protocols for methane capture project in Mexico. According to their website, the Reserve “plans to extend all of [their] project protocols to Mexico and Canada in the near future.”^{2/}

^{1/} “EPA Analysis of the American Clean Energy and Security Act of 2009 H.R. 2454 in the 111th Congress,” <http://www.epa.gov/climatechange/economics/economicanalyses.html>.

^{2/} Climate Action Reserve website FAQs. <http://www.climateactionreserve.org/resources/faqs/>.

The largest volume of international offset projects are those developed under the Clean Development Mechanism (CDM). According to a 2008 World Bank Report, CDM projects from 2002 to 2007 had “a cumulative committed investment ...of about US\$59 billion resulting from \$15.5 billion in CDM credit purchases.”^{3/} These projects have helped bring clean, low-carbon technologies to developing countries and should be included in ARB’s review.

Adopting existing protocols is important because from inception to implementation, domestic protocol development has been a lengthy process, taking between 1.5 and 6 years. For example, it took the Reserve 1.5 years from the time work was initiated on the Landfill Project Reporting Protocol to the time of issuance of offsets from a project. That was under the best circumstances. In the case of forestry, it took the Reserve approximately 6 years for the development of the first forest projects. With respect to livestock methane management, the Reserve issued offsets this year from three projects in Idaho, taking approximately three years from the time work was initiated on the protocol. Finally, while the urban forest protocol has been developed, no GHG emission reductions have been issued to date.^{4/} PG&E is concerned that the lead time required to develop protocols for high-quality international offsets will result in their unavailability in the first compliance period.

PG&E is concerned that the current move from project-based offsets to sectoral crediting is complicated and will take time to develop. While these systems have been proposed and discussed by national and international legislative bodies, no sectoral crediting systems have been implemented yet. The state’s approach of engaging developing countries at the sub-national level through its Memoranda of Understanding could give California valuable experience with international offsets and sectoral crediting.^{5/6/} Pursuing sub-national pilots with these and other countries will help refine the processes to implement these projects in a timely manner. As these pilots are developed, it is important to allow use of the best existing international offsets to provide a supply of offsets during the first compliance period in 2012.

^{3/} World Bank, “State and Trends of the Carbon Market 2008,” May 2008.

^{4/} Climate Action Reserve database. Downloaded June 16, 2009.

^{5/} Office of the Governor Press Release, “Gov. Schwarzenegger Partners with Other States to Reduce Greenhouse Gas Emissions from Deforestation,” <http://gov.ca.gov/press-release/11101/>.

^{6/} http://www.climatechange.ca.gov/events/2008_summit/mou/index.php.

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Thank you for the opportunity to opportunity to provide these preliminary comments in response to the California Air Resources Board (ARB) Staff's July 30, 2009 workshop on International Offsets in a California Cap-and-Trade Program. Please do not hesitate to contact me at (415) 973-6617 if you have any questions regarding these comments.

Very truly yours,



John W. Busterud

JWB/dl

cc: Ms. Lucille Van Ommering
Dr. Steve Cliff
Ms. Brienne Aguila
Mr. Sam Wade