Panoche Energy Center 43833 W. Panoche Road, Firebaugh CA 93622

April 15, 2016

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Rajinder Sahota
California Air Resources Board
1001 I Street
Sacramento, CA 95812-2828

Re: Panoche Energy Center LLC Comments on Potential Cap-and-Trade Regulation Amendments Re Tuesday March 29, 2016, Workshop

On behalf of Panoche Energy Center LLC ("PEC"), we would like to thank the Air Resources Board ("CARB" or "Board") and its Staff for the opportunity to comment on potential amendments to the Cap and Trade Regulation prior to any formal proposal. This timing allows for a robust, informal discussion of important issues that will significantly impact PEC.

PEC is a large natural gas peaking plant with a tolling agreement ("PPTA") for the exclusive sale of electric power to Pacific Gas & Electric Company that was signed in March 2006. PEC's PPTA does not allow PEC to recover the cost of its emissions, and PEC has been awarded Legacy Contract Transition Relief for the first and second compliance periods, per Section 95870(g).

PEC's comments on the proposal for discussion emerging from the CARB workshop on March 29, 2016, are limited to a single bullet on a single slide. That brief entry proposes that additional Legacy Contract Transition Relief will not be offered in future compliance periods to Legacy Contract generators without industrial counterparties, thus excluding PEC from future Legacy Contract Transition Relief.

PEC has actively participated throughout the CARB regulatory process related to the Cap & Trade program, and has an understanding of the positions taken by Staff over time related to Legacy Contract Transition Relief. Since the initial adoption of the Cap and Trade Regulation and following CARB's award of Legacy Contract Transition Relief, PEC has continually sought in good faith to secure a just and reasonable contract amendment with its counterparty on terms similar to settlements entered into with other entities in PEC's position. PEC has repeatedly approached its counterparty to negotiate a resolution directly and through the offices of the California Public Utilities Commission ("CPUC"), CARB, and others, all to no avail. The legacy contract relief granted to PEC, while critical to PEC, did not impact our counterparty and provided no incentive to our counterparty to negotiate a settlement. Likewise, the proposed cessation of Legacy Contract Transition Relief would only harm PEC, and, as such, PEC must object.

PEC would like to initiate follow up dialogue with Staff on this issue to find an acceptable solution -- a result that PEC has actively pursued for the past several years. As noted in prior comments, without a restructuring of either PEC's PPTA or the structure of CARB's Legacy Contract Relief for Entities without Industrial Counterparties, there will be material negative financial impacts to PEC and its bondholders. Two current reports from major credit agencies who reviewed PEC's Cap and Trade situation and independently determined that if PEC is required to bear GHG compliance costs without relief, the credit rating for PEC's senior bonds likely will be downgraded, perhaps by as much as two notches.

Staff has consistently expressed a preference for negotiations between parties to Legacy Contracts. Over the last four years, PEC has attempted negotiations with its Legacy Contract counterparty without success. PEC will continue its good faith efforts to pursue a just and reasonable amendment to its PPTA on terms similar to those approved by the CPUC for similarly situated generators. PEC believes that the resolution of this issue by settlement negotiations with its counterparty is unlikely however, as its counterparty appears to have no business incentive to negotiate a resolution at this time.

Therefore, PEC believes now is the time to develop a new approach moving forward. We look forward to engaging on this issue. If you have any questions, please contact me at (781) 292-7007, or Robin Shropshire at 406-465-2231, rshropshire@ppmsllc.com.

Sincerely,

/s/

Warren MacGillivray

cc: Richard Corey-Executive Officer
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