Pacific Gas and Electric Company

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

Re: March 29, 2016 Post-2020 Emissions Caps and Allowance Allocation Workshop

I. Introduction

Pacific Gas and Electric Company (PG&E) appreciates the opportunity to provide comments on the March 29, 2016 "Post-2020 Emissions Caps and Allowance Allocation Workshop" (workshop). PG&E strongly supports California's clean energy goals, including the Governor's Executive Order[1] proposing a 2030 greenhouse gas (GHG) reduction goal of 40% below 1990 levels. We look forward to working with the California Air Resources Board (ARB), the Legislature, and concerned stakeholders to craft legislation needed to codify the Governor's 2030 GHG reduction goal.

PG&E's comments focus on the following issues:

- PG&E prefers a straight-line cap decline trajectory
- ARB should explore changes to the post-2021 caps in light of the Clean Power Plan
- ARB should ensure the cap reflects changes to global warming potential values
- PG&E supports continued allocation to electric distribution utilities
- Implementation of ARB's proposed adjustment for large emissions-intensive, trade-exposed entities must not result in cost shifting
- PG&E agrees that the electric distribution utility allocation should account for electrification
- PG&E supports continued allocation to natural gas suppliers
- ARB should maintain the current consignment rate for natural gas suppliers

II. Cap Setting

<u>PG&E Prefers a Straight-line Cap Trajectory</u>

At this time, PG&E favors staff's proposed "Option 1," a straight-line cap decline post-2020. Without a greater understanding of ARB's forecasted 2020 emissions and allowance prices, it is difficult to take a position on staff's proposed "Option 2." If staff proceeds with Option 2 in its forthcoming regulatory language, PG&E would recommend placing allowances equivalent to the difference in the cumulative budget under Option 1 in the Allowance Price Containment Reserve (APCR) to further reduce the likelihood that a tightening in the market results in unacceptably high prices and triggers an "administrative intervention."[2]

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[1] B-30-15

[2] Slide 6 of materials for the April 5, 2016 Cost Containment Workshop

PG&E supports extending the existing mechanism for addressing allowances that go unsold at auction. Ensuring that unsold allowances are not permanently removed from the market may prove critical in the post-2020 period when the slope of the annual allowance budget reductions declines at a significantly steeper rate.

<u>ARB Should Explore Changes to the Post-2021 Caps in Light of the Clean Power Plan</u>
Staff's cap-setting options do not appear to contemplate changes to the treatment of emissions associated with electricity imports post-2021. In light of California's and other Western states' implementation of the Clean Power Plan (CPP), PG&E encourages ARB to consider a broader range of cap-setting options. Specifically, PG&E recommends that ARB explore how it could adjust the post-2021 caps to reflect future changes to the treatment of emissions from electricity imports. In previous comments to ARB regarding this issue, PG&E encouraged ARB to:

- Perform modeling of its various options regarding imported electricity to inform its policies;
- Work with the California Independent System Operator (CAISO) to ensure the treatment of imports under the ARB's Cap-and-Trade Program promotes efficient dispatch in Western power markets once the Clean Power Plan is implemented; and
- Explore linkage opportunities with States implementing mass-based programs as their CPP State Plan as a way to achieve consistent GHG pricing in Western power markets.

We reiterate those comments here.

<u>ARB Should Ensure the Cap Reflects Changes to Global Warming Potential Values</u>
During the March 29 workshop, staff proposed changes to the global warming potential (GMP) values for methane and nitrous oxide. However, it remains unclear if and how a 2030 cap of 210 million metric tons (MMT) was calculated in light of these new values. PG&E requests that ARB provide additional information about how the post-2020 caps were adjusted to reflect these new GWP values.

III. PG&E Supports an Electric Distribution Utility Allocation Methodology that Reflects Customer Costs and Treats All Customers Equitably

<u>PG&E Supports Continued Allocation to Electric Distribution Utilities</u>
PG&E supports ARB's recognition of the importance of continuing the allocation of allowances to electric distribution utilities (EDUs) on behalf of California's electric customers post-2020. We agree with staff that EDUs are best positioned to return allowance value to Californians and that "ratepayer protection" should remain a pillar of any allocation methodology, particularly given historical and projected investments in clean energy (e.g. activities to implement the provisions of Senate Bill 350).

<u>Implementation of ARB's Proposed Adjustment for Large Emissions-Intensive, Trade-Exposed Entities Must Not Result in Cost Shifting</u>

Equal treatment of all customers remains PG&E's top priority. Whichever allocation approach ARB proposes should not result in shifting costs from one customer class to another. To this end, PG&E is concerned about the methodology presented by staff for directly allocating allowances to industrial entities above the “inclusion threshold” (25,000 MT) that are classified as emissions-intensive, trade-exposed (EITE) entities to cover the pass-through of GHG costs associated with electric consumption. We look forward to learning more from ARB about how this change will be implemented. Additionally, although staff is pursuing an adjustment to the EDU allocation to attempt to provide equitable treatment of all EITE entities regardless of service territory, its different requirements for consignment for IOUs and POUs may advantage EITE entities in POU territories, who may benefit from allowances allocated to and used directly by POUs in addition to ARB’s proposed direct allocation to EITEs. In addition, ARB cannot ensure equal treatment of EITE entities regardless of size. It is worth pointing out that the wide majority of PG&E’s EITE customers fall below ARB’s inclusion threshold for the Cap-and-Trade Program.

PG&E respectfully recommends that ARB share with the CPUC the information and methodology it would use to determine a direct allocation to covered EITE customers and leave it to the CPUC to ensure that value is returned in a timely manner. Since this work will need to be done for all years prior to 2021 regardless of the treatment post-2020, it seems logical that it could continue post-2020.

<u>PG&E Agrees that the EDU Allocation Should Account for Electrification</u>
PG&E supports staff’s proposal to increase EDU allocations in recognition of electrification activities. PG&E recommends that these adjustments be made retroactively each year based on the prior year’s electrification load. The current methodology for reporting residential electric vehicle charging under the Low Carbon Fuel Standard (LCFS) is an excellent model from which to draw. PG&E would also support using the average grid emissions rate developed for the LCFS program when calculating changes to the EDU allocation. This load-based calculation is preferable to an emissions-based approach that would attempt to assess which generation resources serve electrification load and calculate the specific emission profiles of those resources. Such an approach would prove administratively burdensome and likely require a number of assumptions that may impact the accuracy of the information produced.

We also look forward to working with ARB and other stakeholders on developing methodologies to account for additional electric vehicle charging that does not currently generate LCFS credits (such as public and workplace charging, which are expected to grow over time), as well as other sources of electrification.

IV. PG&E Supports Continued Allocation to Natural Gas Suppliers

PG&E supports staff’s proposal to continue the existing allowance allocation methodology, which allocates allowances to natural gas suppliers on behalf of their customers. The proposal provides a fair allocation to help manage the costs of GHG reduction activities in the natural gas sector.

V. ARB Should Maintain the Current Consignment Rate for Natural Gas Suppliers

ARB staff outlined three possible options for escalating the minimum percentage of allocated allowances that must be consigned to auction by natural gas suppliers post-2020. PG&E opposes changing the current consignment rate for the following reasons.

Less than three years ago, California's natural gas utilities and other stakeholders worked together with ARB staff to determine the appropriate consignment rate. This effort included extensive discussions resulting in ARB's decision to begin with a minimum of 25% consignment in 2015 and gradually increasing the minimum by 5% per year to 50% in 2020 with the goal of 100% consignment by 2030. [3] ARB's proposed changes overlook the documented reasoning for a more gradual transition to a full price signal that remains sound today: "This transitional approach allows for a price signal to end users while allowing them time to convert to lower carbon alternatives."[4]

Additionally, the proposed change introduces regulatory uncertainty around procurement activities for all market participants by suggesting that ARB staff may suddenly modify allocation frameworks. The level of consignment for natural gas suppliers was designed to provide a balanced transition to a full carbon price-signal, mitigate market risk, and manage costs for California's natural gas customers. Altering the rate of consignment, particularly some of the more aggressive options proposed, fails to recognize the time needed to implement GHG-reduction activities by both utilities and consumers.

It is imperative for ARB to consider cost impacts from the Cap-and-Trade Regulation in light of <u>all</u> future customer bill impacts for both natural gas and electricity, and to take into account the totality of bill increases that natural gas customers will be facing, especially low income households and small businesses. This is particularly important given that customers cannot currently distinguish between price increases due to Cap-and-Trade or California's other GHG-reduction programs (e.g., there is no line-item cost) and other costs such as those imposed by other regulatory programs.

Sincerely,

/s/

Claire Halbrook
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Pacific Gas and Electric Company

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[3] Page 16 of September 4, 2013 Initial Statement of Reasons: http://www.arb.ca.gov/regact/2013/capandtrade13/capandtrade13isor.pdf and Page 66 of the May 2014 Final Statement of Reasons: http://www.arb.ca.gov/regact/2013/capandtrade13/ctfsor.pdf

[4] Page 16 of September 4, 2013 Initial Statement of Reasons: http://www.arb.ca.gov/regact/2013/capandtrade13/capandtrade13isor.pdf