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***ARB’s Cap-and-Trade Website***

Steven Cliff, Ph.D.

Chief - Climate Change Market Branch

California Air Resources Board

1001 I Street

Sacramento, CA 95812-2828

**Re: Pacific Gas and Electric Company’s Comments on the Air Resources Board Cap-and-Trade Public Meeting to Discuss New Offset Protocols**

Dear Dr. Cliff:

Pacific Gas and Electric Company (PG&E) welcomes the opportunity to submit these comments on the Air Resources Board’s (ARB) public meeting to discuss new offset protocols, specifically the Rice Cultivation and Coal Mine Methane (CMM) protocols.

PG&E supports the adoption of additional protocols to provide an adequate supply of offset credits to the cap-and-trade market. The use of high-quality offset credits is an effective cost-containment tool and an essential component of a successful cap-and-trade program. However, as previously stated in PG&E’s comments, without adequate supply, the cost-containment benefit of offset credits will not be fully realized.

With the forthcoming linkage of California and Quebec’s cap-and-trade programs, offset credit supply is expected to play an even larger role in cost-containment. PG&E’s analysis found that compliance costs are forecasted to be higher if offset credit supply in Quebec and California is lower. Therefore, PG&E urges ARB to continue and accelerate protocol development and adoption efforts, which will pave the way for additional offset credit supply.

Several analyses, including our own, indicate that a supply of offset credits equivalent to the 8% Quantitative Usage Limit will not be available in Compliance Periods 2 and 3 unless additional protocols are adopted. As such, PG&E believes that ARB should prioritize the approval of protocols that provide a significant supply of offset credits.

In addition, due to this low supply forecast and the lead time for offset issuance after a new protocol is approved, PG&E recommends that ARB allow compliance entities to carry over any unused portion of their 8% usage limit to subsequent compliance periods. If sufficient offsets are not available in one compliance period, this flexibility would enable compliance entities to use more offsets in later compliance periods, when offset supply may increase due to the approval of new protocols, higher prices, or more developer experience. The ability to use more offsets later in the program would also help covered entities satisfy their compliance obligations at a lower cost, and could potentially lower market prices and volatility in later compliance periods when allowance supply is tighter.

In parallel to ARB's review of new offset protocols, we understand staff is planning to update existing protocols as needed. We fully support staff in these efforts and look forward to opportunities for collaboration. For example, the ozone-depleting substances (ODS) destruction protocol was originally developed in 2009. Since then, baseline scenarios have changed for both refrigerants and foam blowing agents, which should be reflected in a revised protocol. The livestock protocol should also be revised to take into account more recent data. Revisions to these protocols in particular are important to ensure technical accuracy, program integrity, and the maximization of supply from existing protocols.

Thank you again for the opportunity to submit these comments. We look forward to continuing our work with ARB and other stakeholders to ensure the successful implementation of Assembly Bill (AB) 32.

Very truly yours,

/s/

Judi K Mosley