

Greg Mayeur
Manager, Program Operations Section
California Air Resources Board
1001 I Street
Sacramento, CA 95812-2828

Re: Pacific Gas and Electric Company's Comments on the Air Resources Board Workshop to Discuss the Proposed Rice Cultivation Offset Protocol and Updates to Existing Offset Protocols

Dear Mr. Mayeur:

Pacific Gas and Electric Company (PG&E) welcomes the opportunity to submit these comments on the Air Resources Board's (ARB) workshop on the Proposed Rice Cultivation Offset Protocol (Rice Protocol) and Updates to Existing Offset Protocols.

I. DISCUSSION

PG&E is encouraged by the development of the Rice Protocol and urges ARB to adopt additional protocols or, where appropriate, update existing protocols to provide an adequate supply of offset credits to the cap-and-trade market. Offset credits help to reduce greenhouse gas (GHG) emissions from sources outside of the cap, which will prove critical as California works toward additional emissions reduction goals. In addition, the use of high-quality offset credits is an effective cost-containment tool and an essential component of a successful Cap-and-Trade Program. 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 soon as possible. Without adequate supply, the emissions-reduction and cost-containment benefits of offset credits will not be fully realized.

As the first land-based agricultural protocol in the Cap-and-Trade Program, with complex modeling needed to determine emission reductions, it is important that the Rice Protocol be based on the principles of sound science, commercial viability, and consideration of environmental impacts. As a large compliance entity, PG&E is concerned by ARB's deferral of the use of project aggregation for rice cultivation offset projects because that deferral is contrary to these principles. The American Carbon Registry (ACR) currently allows a form of project aggregation in its voluntary Rice Cultivation Protocol and has already listed a project that includes four different landowners. In addition, the Coalition on Agricultural Greenhouse Gases (C-AGG) has worked diligently to develop aggregation guidelines and has solicited ARB's feedback to further strengthen its proposal.

Aggregation can reduce project development costs and facilitate participation in offset projects, leading to more supply and potentially lower offset credit costs. Lower offset credit costs would

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lower the cost of compliance for PG&E and other California entities, to the benefit of California residents. Furthermore, the use of aggregation will set an important precedent for future agricultural offset protocols and impact their ability to provide significant supply to the market. Therefore, PG&E urges ARB to enable the use of project aggregation in its compliance protocol.

PG&E is also concerned about the removal of the practice of rice straw baling from both the California and Mid-South modules of the Rice Protocol. While PG&E understands that ARB must take into consideration the non-GHG-related environmental impacts of the protocols it approves, PG&E urges ARB to reconsider the practice of rice straw baling in the Rice Protocol based on a fuller understanding of its environmental impacts and benefits. ACR and the Climate Action Registry (CAR) view rice straw baling as a viable method for reducing GHG emissions from rice cultivation and currently include it in their voluntary protocols. PG&E recommends that ARB leverage ACR and CAR's experience and data, as well as other data sources, to refine staff's understanding of the impact of rice straw baling on waterfowl. Absent the practice of rice straw baling, the Rice Protocol will generate fewer offset credits, reducing the amount of supply available to compliance entities, and likely increasing the cost of rice cultivation offset credits.

II. CONCLUSION

Thank you for the opportunity to submit these comments. PG&E urges ARB to carefully review these suggestions and make the recommended changes to ensure successful implementation of the Rice Protocol. We look forward to continuing our work with ARB.

Very truly yours,

/s/

Mark C. Krausse

cc: Yachun Chow