Pacific Gas and Electric Company

Mark C. Krausse
Senior Director
State Agency Relations

1415 L Street, Suite 280
Sacramento, CA 95814
(916) 386-5709
nxbz@pge.com

September 19, 2016

Mr. Richard Corey
Executive Officer
California Air Resources Board
1001 I Street
Sacramento, California 95812

Re: Pacific Gas and Electric Company's Comments on California's Proposed Compliance Plan for the Federal Clean Power Plan

Dear Mr. Corey:

Pacific Gas and Electric Company (PG&E) appreciates this opportunity to comment on California's Proposed Compliance Plan for the Federal Clean Power Plan (CPP Plan).

I. INTRODUCTION

PG&E applauds the Air Resource Board (ARB) for being the first state agency in the country to put forth a draft Clean Power Plan (CPP) Compliance Plan, and generally supports ARB's proposal to use a state measures plan supported by the existing multi-sector Cap-and-Trade Program. PG&E also believes the Cap-and-Trade Program can do more to provide for greater "trading readiness" and linkage opportunities in conjunction with the CPP. PG&E expands on these topics in sections A through C below.

A. The Proposed Compliance Plan Is Strong but Could Be Improved By Being Made Trading Ready

PG&E supports ARB's proposal to comply with the CPP through a state measures plan supported by the existing multi-sector Cap-and-Trade Program. This approach complies with CPP requirements without interfering in the smooth operation of existing California climate programs. PG&E also appreciates ARB's interest in evaluating new market-based programs developed for CPP compliance and efforts to address mass-based trading issues including allocation, allowance tracking, leakage risk, and compliance.

However, ARB could do more to signal its openness to a broader carbon market that could develop through the CPP. In particular, PG&E encourages ARB to take the necessary steps to be designated as trading-ready. In a joint letter on this topic submitted March 28, 2016, PG&E and other stakeholders recommended that ARB incorporate changes to the Cap-and-Trade Program to enable the State to submit a state plan that would be considered trading-ready upon approval. Trading through well-designed linkages offers the potential for significant cost-savings while preserving environmental integrity. Over time, such cost-savings could also facilitate increased GHG reductions. To the extent that potential CPP linkage partners are also WECC states, linkage also creates opportunities to simplify the inclusion of GHG programs in a regional electric market and avoid distortions to least-cost (inclusive of GHG costs) siting and dispatch.

PG&E supports ARB's proposal to utilize the state's full CPP emission target (as recalculated by ARB) in establishing the CPP plan emission glide path. This approach reduces the likelihood of triggering the CPP backstop provisions without undermining environmental integrity; this is because California's existing climate programs already establish economy-wide mass-based emission limits. We also agree that California's many complementary policies are already accounted for by the Cap-and-Trade Program and should not be included as state measures in the CPP plan.

B. Backstop Proposal

PG&E agrees that triggering the CPP backstop is very unlikely given California's existing climate programs, and that nonetheless a backstop mechanism is a required element of a state measures plan. PG&E supports the use of an "affected-EGU-only" cap-and-trade program as the backstop mechanism. Such a program meets EPA backstop requirements, while preserving some flexibility for affected California EGUs in how to achieve California's CPP emission target.

While PG&E generally supports the structure of the backstop proposal, ARB could improve the backstop design in two ways.

First, to provide additional flexibility to affected EGUs in complying with a backstop program, affected EGUs should be allowed to purchase CPP compliance instruments from other mass-based states. The ability to purchase CPP compliance instruments from other states for backstop compliance could reduce costs significantly; this may be particularly important in a future where the backstop is triggered, as in-state emission reductions would clearly have been more difficult to achieve than expected. This additional flexibility for backstop compliance could be provided without affecting economy-wide emissions across the California and linked partner jurisdiction footprint, as affected EGUs would continue to have a separate GHG obligation associated with the multi-sector Cap-and-Trade Program.

Second, PG&E encourages ARB to consider alternative allowance allocation approaches for the backstop program that would use any value associated with backstop allowances for ratepayer, rather than EGU-owner, benefit. For example, similar to the multi-sector Cap-and-Trade Program, ARB could allocate backstop allowances to electric distribution utilities (EDUs) stipulating a 100 percent consignment-to-auction requirement. Recognizing the low likelihood of triggering the backstop, ARB could use a simple approach, such as EDU sales, to allocate these backstop allowances among the EDUs. Such an approach would better protect electric ratepayers and avoid the potential for windfalls associated with free allocations to EGUs that operate in a restructured electricity market.

C. Modeling

California's state agencies make a compelling modeling case that the State's plan is expected to produce CPP compliance under a range of expected futures. However, if additional analysis is conducted in the future before plan submittal to EPA, PG&E encourages the agencies to consider a few modifications aimed at making the analysis more robust and compelling. First, the modeling should use auction reserve prices for California in all years for both stress and reference cases. As the GHG price is the modeling representation of California's proposed measure to comply with the CPP (i.e., the multi-sector Cap-and-Trade Program), using the lowest plausible GHG price is appropriate and could make the results more compelling in the state plan review process. The model would likely still project CPP compliance using these lower California GHG prices. Second, the modeling should use lower GHG prices outside of California that are tied to possible CPP compliance programs rather than California's (higher) auction reserve price. Finally, the agencies should extend the modeling horizon to 2030, or supplement the Plexos analysis with other existing state agency modeling (such as E3 Pathways) that extends through 2030.

II. CONCLUSION

In conclusion, PG&E generally supports ARB's proposed approach to CPP compliance, and looks forward to continuing to collaborate with ARB on this important subject as CPP advances at both the federal and state level.

Sincerely,

/s/

Mark Krausse
Senior Director
Pacific Gas and Electric Company