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***Electronically Filed on
ARB's Cap-and-Trade Website***

Kevin M. Kennedy, Ph.D.
Assistant Executive Officer – Climate Change
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Pacific Gas and Electric Company's Comments on the California Air Resources Board Staff July 27, 2009 Workshop on Linking California's Cap-and-Trade Program to Other Greenhouse Gas Trading Programs

Dear Dr. Kennedy:

Pacific Gas and Electric Company ("PG&E") welcomes the opportunity to provide these comments on the issues raised at the California Air Resources Board Staff ("ARB") presentation on July 27, 2009 workshop, regarding (1) linkage of California's GHG cap-and-trade program with those of similar programs elsewhere, and (2) one-way trading of credits from California's Low-Carbon Fuel Standard into California's cap-and-trade program.

On global climate change, PG&E has two overarching goals:

- Long-term, sustained reductions in emissions, and
- Manageable costs to our customers.

Linkage helps achieve these goals. As noted by the United States Climate Action Partnership, "[l]inking emission trading systems globally would bring higher economic efficiency, greater scope for emission reductions, and broader political engagement."^{1/} Staff made similar points in its presentation. Specifically, Staff noted that linking programs reduces overall abatement costs by allowing emitters to choose lower-cost emission reductions in one program rather than higher-cost reductions in the other. Linkage also creates a broader market, which may improve liquidity and overall functioning of the market, and possibly contain allowance costs.

PG&E supports linkage to programs that have environmental integrity, so that actual reductions occur when a California entity purchases another program's allowances and offsets. Specifically, a candidate program for linkage must not have over-allocated allowances. It must have accurate reporting and meaningful enforcement. It must accept only high-quality offsets.

^{1/} "A Blueprint for Legislative Action", United States Climate Action Partnership, January 2009, p. 3, downloadable at http://www.us-cap.org/pdf/USCAP_Blueprint.pdf.

There should be no limitation on using allowances or offsets from linked systems as long as appropriate linkage criteria are met. Limitations on use of allowances and offsets from linked programs would raise total compliance costs and might prove difficult to enforce. Both emissions allowances and offsets should be subject to comparable standards, regardless of geographic origin, so that both are usable and available to the same extent.

PG&E requests that ARB approve linkage to qualified programs. As noted in previous comments to ARB, PG&E is concerned that California's cap-and-trade program, as currently proposed, may be vulnerable to prolonged periods of high prices. PG&E's greatest concern is the first compliance period (2012-2014), when the program would include only the electric and industrial sectors. Linkage in a timely manner could help mitigate that concern.

With respect to the Low Carbon Fuel Standard, PG&E's preferred approach to addressing transportation-sector emissions is to include the sector in a cap-and-trade program starting in 2012. However, given ARB's guidance that the transportation sector will not be capped until 2015, PG&E believes that one-way linkage may be a necessary bridging mechanism from 2012 through 2014. PG&E is concerned about limited demand for electric fuel LCFS credits during the first compliance period. One-way linkage would provide an incentive for utilities to promote vehicle electrification, while increasing the liquidity of the cap and trade market and indirectly capturing some transportation sector GHG emission reductions during the period when that sector is outside the cap. After 2014, PG&E believes that the LCFS credit market and the cap and trade market should function independently of one another. PG&E acknowledges that the interaction between the intensity-based LCFS credit system and a capped market creates implementation challenges, and that unilateral linkage from 2012 through 2014 could manifest itself in many ways, given that some market design elements are still undetermined. As such, more detailed design proposals for both the LCFS and the cap and trade markets should precede a final determination regarding unilateral linkage, including ensuring that emissions reduction strategies in the transportation sector that rely on increased electrification in the electric sector do not penalize complying entities in the electric sector.

Thank you for the opportunity to submit these comments. We look forward to working constructively with ARB, other state agencies, concerned stakeholders, and members of the public to tackle the challenge of global climate change and to ensure the successful implementation of AB 32.

Very truly yours,

/s/

John W. Busterud

JWB:kp

cc: Dr. Stephen Shelby