



**Pacific Gas and  
Electric Company®**

John W. Busterud  
Attorney at Law  
Section Head-Environmental

Law Department  
77 Beale Street, B30A  
San Francisco, CA 94105

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*Mailing Address:*  
Mail Code B30A  
P. O. Box 7442  
San Francisco, CA 94120

415.973.6617  
Fax: 415.973.5520  
E-Mail: JWBB@pge.com

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

Kevin M. Kennedy, Ph.D.  
Assistant Executive Officer – Climate Change  
CALIFORNIA AIR RESOURCES BOARD  
1001 "T" Street  
Sacramento, CA 95814-2828

**Re: Pacific Gas and Electric Company's Comments on the California Air Resource Board Staff's June 23, 2009 Workshop on Point of Regulation for the Sources of Fuel Combustion Included in the Second Compliance Period in a California Cap-and-Trade Program**

Dear Dr. Kennedy:

Pacific Gas and Electric Company ("PG&E") welcomes the opportunity to provide these comments on the California Air Resources Board Staff's ("ARB") presentation at the June 23, 2009 workshop, specifically on the inclusion of greenhouse gases ("GHG") emissions from small natural gas users in a California cap-and-trade market.

As stated in prior comments to the ARB,<sup>1</sup> PG&E recommends further analysis and modeling of the small customer segment of the natural gas sector because emission reduction opportunities in this sector are limited and may be more effectively captured through a well-integrated set of energy efficiency programmatic measures than through a cap-and-trade mechanism. Moreover, public utilities like PG&E, which serve small natural gas customers, do not have legal authority to refuse to provide natural gas service to customers or to ration or dictate the amount of natural gas provided to these customers in order to achieve a particular emission reduction goal. In this regard, we already note that the ARB Scoping Plan includes proposed programmatic measures that would reduce emissions by small customers directly, including more stringent building and appliance standards and other "green building" standards and initiatives (Scoping Plan, pp. 44, 57-59.) Apart from building and appliance efficiency improvements, there appear to be limited cost-effective opportunities for other lower carbon fuels to substitute for small customer natural gas consumption at this time.

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<sup>1</sup> See PG&E's Comments to ARB dated August 5, 2008 and November 25, 2008.



Kevin M. Kennedy, Ph.D.  
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CALIFORNIA AIR RESOURCES BOARD  
July 24, 2009  
Page 2

If the ARB nonetheless seeks to include the small natural gas customer in a cap-and-trade market and assigns the public utility Local Distribution Company (“LDC”) as the point of regulation, PG&E provides the following recommendations to ARB in order to reduce compliance uncertainty and improve the overall functioning of the market:

- **General Applicability:** If the LDC is the point of regulation for all residential, commercial, and small industrial natural gas customers below the 25,000 metric ton/year threshold for direct regulation, the ARB should clearly define the point of regulation as the LDC that owns and reads the meter providing gas delivery to the end-user where gas combustion ultimately occurs. Reporting and compliance for the LDC should be based on metered therms.
- **Applicability to Power Plants:** In written comments and at the workshop, Southern California Edison raised concerns regarding a threshold of 25,000 metric tons/year for peaking power plants. PG&E believes Edison’s concerns deserve consideration. The California Energy Commission’s roster of existing power plants lists 22 fossil-fueled peaking plants in the capacity range from 15 MW to 50 MW with a total capacity of 913 MW.<sup>2</sup> Exempting such a peaker from compliance until it reaches 25,000 metric tons/year of emissions may cause unnecessary complications.
- **Allowance Allocation:** Allowances should be allocated to LDC’s on behalf of their customers. Under the direction of the CPUC or other applicable authority, there would be assurance that costs are minimized and that allowance values flow through to the end customer.
- **Identification of Directly Regulated Facilities:** Each customer should know in advance whether it will be directly regulated in the cap-and-trade market. Under ARB’s suggested threshold, a customer responsible for more than 25,000 metric tons/year of GHG emissions would be directly responsible for procuring GHG allowances to cover those emissions but would not be directly responsible if emissions were lower than that threshold. Changes in fuel use near the end of a compliance period could unexpectedly change a customer’s status

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<sup>2</sup> The CEC power plant roster is downloadable at: <http://energyalmanac.ca.gov/powerplants/index.html>



Kevin M. Kennedy, Ph.D.  
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CALIFORNIA AIR RESOURCES BOARD  
July 24, 2009  
Page 3

between these two scenarios, causing uncertainty. The uncertainty could be removed, for example, by basing each customer's status on its emissions during the prior calendar year or compliance period. For example, PG&E notes that the ARB Mandatory Reporting Regulation requires that a facility fall below 20,000 metric tons of CO<sub>2</sub> for three consecutive years prior to the reporter being exempt from further reporting.

- **Notification Procedure:** The ARB should provide the relevant LDC or natural gas marketer with written notice at least one year in advance for each customer that will be directly regulated to prevent potential double counting of the emissions from the directly regulated facility.
- **Uniform GHG Emission Factor:** GHG emissions from natural gas combustion should be calculated by multiplying metered therms by a uniform GHG emission factor for natural gas. Different batches of natural gas have different heat content and therefore different CO<sub>2</sub> emission factors. It is theoretically possible to improve accuracy by roughly one percent (1%) by using different CO<sub>2</sub> emission factors for different batches of natural gas, but at a substantial increase in complexity that might interfere with commercial transactions in the natural gas market, such as trading futures. However, using one uniform GHG emission factor for natural gas is administratively simple and results in virtually equivalent accuracy. For example, in developing the 1990 baseline emissions, Staff used one GHG emission factor (0.053 g. of CO<sub>2</sub> emissions per Btu) for all consumption of natural gas.<sup>3</sup>
- **Public Utility Service Obligation Supersedes LDC Compliance Obligation Where in Conflict:** If LDCs are in fact designated as the point of regulation for emissions by their small natural gas customers, the ARB should clarify that LDCs compliance obligations under AB 32 may be superseded by the legal obligation to provide

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<sup>3</sup> Source: ARB Staff Annex 1C documenting staff's emission inventory, May 2009, available at [http://www.arb.ca.gov/cc/inventory/doc/methods\\_v1/annex\\_1c\\_fuel\\_combustion\\_in\\_industrial\\_commercial\\_residential\\_agricultural\\_and\\_other\\_sectors.pdf](http://www.arb.ca.gov/cc/inventory/doc/methods_v1/annex_1c_fuel_combustion_in_industrial_commercial_residential_agricultural_and_other_sectors.pdf).



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CALIFORNIA AIR RESOURCES BOARD  
July 24, 2009  
Page 4

natural gas service to LDC customers. The “public utility service obligation” should prevail to the extent customers request or require unforeseen levels of gas service that would cause an LDC to not be in compliance with AB 32 emissions limits despite the LDC’s reasonable efforts to obtain sufficient allowances, offsets, or other compliance instruments.

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,

A handwritten signature in blue ink, appearing to read 'John W. Busterud', with a large, stylized flourish at the end.

John W. Busterud

JWB:kp:bd

cc: Ms. Karin Donhowe, Air Pollution Specialist – Office of Climate Change