Pacific Gas and Electric Company

Fariya Ali
Air & Climate Policy Manager
State Agency Relations
(415) 635-7113
fariya.ali@pge.com

August 17, 2023

Rajinder Sahota, Deputy Executive Officer
California Air Resources Board
1001 "I" Street
Sacramento, CA 95814

RE: PG&E Comments on the July 27, 2023 Cap-and-Trade Workshop

Pacific Gas and Electric Company (PG&E) appreciates this opportunity to comment in response to the California Air Resources Board's (CARB) July 27, 2023 workshop on potential amendments to California's Cap-and-Trade Program (Program). PG&E continues to support the public evaluation and consideration of modifications to the Program that will support the State's urgent and ambitious climate goals while preserving protections for California residents and businesses from unsustainable economic impacts.

Program Allowance Budgets

PG&E supports CARB staff's proposed approach for developing several alternative allowance budget scenarios. We agree with staff that comprehensively modeling the impacts (including cost) of alternative combinations of 1) total number of allowances retired and 2) alternative pools to retire allowances, can support decision-making. In at least some scenarios, we encourage CARB staff to model retiring the 77.7 million allowances held in the Price Ceiling; we expect retiring these allowances can support lower cumulative emissions without increasing costs. We anticipate providing additional recommendations on allowance budgets once the various planned modeling results are available.

We also agree with staff's proposed next steps from workshop slide 28[1]; in particular, that building out allowance budgets to 2045 is a critical next step. As part of this post-2030 scenario development, we encourage CARB to incorporate the carbon management abatement identified in the 2022 Scoping Plan to support achievement of California's GHG goals into potential compliance instrument supply and demand. We believe incorporating carbon management into

[1] California Air Resources Board: https://ww2.arb.ca.gov/sites/default/files/2023-07/nc-CapTradeWorkshop_July272023_0.pdf July 27, 2023

the Cap-and-Trade Program is an important element that can support cost-effective implementation of the Scoping Plan.

<u>Utility Allocation</u>

As we consider potential changes to the Program, including cost implications, we agree with CARB staff that it is also appropriate to review the Program's existing cost protections for consumers via utility allowance allocations. As noted in the workshop slides2, the majority of the investor-owned utility (IOU) allocation revenue is returned to IOU customers through a semi-annual or annual bill credit (known as the Climate Credit) with a much smaller proportion dedicated to clean energy programs approved by the CPUC.

The 2022 Scoping Plan lays out an accelerated transition to cleaner and GHG-emission free technologies which will involve major shifts in how California's economy is fueled. We appreciate that CARB staff called out in the workshop that the cost impact of some of these shifts (for example from building electrification) may disproportionately burden low-income ratepayers who are more likely to transition at a slower pace. With other major sectors such as transportation and industry also shifting to electric fuel, high retail electricity rates also raise equity concerns. Changes to the existing IOU structure for how the protections and benefits from utility allowance allocation could better address such equity issues are thus worth evaluating at the same time that changes to Program allowance budgets are being discussed – if fewer allowances are available for utility allocation, that directly impacts the ratepayer protection that could be provided.

Some options for further exploration could include: modifications to the requirements for non-volumetric returns for Electric Distribution Utilities (EDUs), differentiating the Climate Credit based on income or climate zone, and programmatic approaches to help alleviate the cost burden of energy transitions for priority communities. Any changes to the IOU structure for allowance value return will need to be closely coordinated with the California Public Utilities Commission (CPUC) and take into consideration the timing and technical feasibility of potential modifications. For example, modifying the Climate Credit based on information that utilities do not already have in their rate and billing systems would be a much more complicated, lengthy, and costly effort than using information that is already available. PG&E looks forward to working with CARB, the CPUC, and other stakeholders on how to best support its ratepayers on the path to deep decarbonization through EDU and Natural Gas Supplier utility allowance allocation revenue.

[2] Ibid. Slides 36-37

Other Allocation Categories

Energy Intensive Trade-Exposed Electricity Allocation

PG&E is supportive of CARB's proposal to take over the sole responsibility for reimbursements to reporting covered entities[3] for their electricity purchases. We consider the direct allocation of allowances to covered Energy Intensive Trade-Exposed (EITE) entities from CARB as the most efficient and cost-effective reimbursement method.

Under this proposal, CARB would be able to utilize their existing direct relationship with reporting entities and their designated representatives. The IOUs' current outreach process, as directed by the CPUC,[4] requires dedicated resources and extensive effort to work directly with facility contacts to collect and verify facility billing information, and crediting preferences. This effort is further hindered due to high turnover of contacts at reporting facilities and facility staffs' lack of understanding and awareness of the California Industry Assistance Credit or CARB's Cap-and-Trade Program.

The CPUC's credit calculation, distribution process, and attestation requirements for small and medium EITEs that are not directly covered by the Program,[5] should remain unchanged to ensure these industrial facilities continue to be reimbursed for their electricity purchases through their utility.

PG&E agrees with the CPUC's transition proposal[6] from their most recent Climate Credit proceeding such that if and when the transition to CARB is adopted, the proposed transition would allow for seamless and continuous crediting of large EITE entities while maintaining the policy objectives of preventing economic leakage, administrative simplicity and understandability for ratepayers.

Voluntary Renewable Energy Program (VREP)

Given the historical and projected VREP uptake as shared in the workshop slides,[7] PG&E would support the replenishing of the VREP's allowance reserve at similar levels. In addition, we encourage CARB to consider updating the emissions rate it uses to convert voluntary renewable energy to allowances retired through the VREP. We expect using a lower avoided emission rate in this case (i.e., distinct from the unspecified emission rate) would better reflect real-world impacts and allow the VRE allowance set-aside to support a greater quantity of voluntary renewables.

---

[3] Cap-and-Trade Regulation § 95811. Covered Entities and § 95813. Opt-In Covered Entities
[4] Resolution E-4716, Utility Outreach to EITE Facilities with MRR Reporting Obligation
[5] Facilities that have direct emissions less than 10,000 metric tons of carbon dioxide equivalent gas (MTCO2e) per year
[6] D.21-08-026, 4.4.1. Large EITE Facilities
[7] California Air Resources Board: https://ww2.arb.ca.gov/sites/default/files/2023-07/nc-CapTradeWorkshop_July272023_0.pdf July 27, 2023, Slides 61-62

Conclusion

PG&E looks forward to continuing our collaboration with CARB staff on addressing the issues raised in this letter and those of other stakeholders through a collaborative, transparent public process.

Sincerely,

/s/
Fariya Ali
Air & Climate Policy Manager