PG&E’s Approach to Offsets

Climate Action Reserve Workshop on Compliance Offsets for Electric Power Companies
A regulated investor-owned utility

Electric accounts: 5.2 million
Natural Gas accounts: 4.3 million
Employees: 20,000 employees
Service Area: 70,000 square miles
Electric T&D: 160,000 miles
Gas T&D: 49,000 miles
Electricity Procured: 77.5 TWh
Natural Gas Throughput: 842,343 MMcf
Peak demand: 20,000 MW
PG&E’s Actions Associated with Climate Change Policy

• One of first utilities in the United States to call for mandatory national legislation

• Founding member of U.S. Climate Action Partnership

• First investor-owned utility to support enactment of California’s Global Warming Solution Act, Assembly Bill (AB) 32
  • Requires California to return economy wide GHG emissions to 1990 levels by 2020

• Joined coalition in opposition to California Proposition 23, initiative to suspend AB 32

• Offered first-of-its-kind ClimateSmart™ program which contracted for 1.36 million MT of voluntary carbon offsets
PG&E’s Objectives for Implementation of AB32

- Environmental integrity
  - Provide sustained long term emission reductions
- Costs
  - Achieve reductions while effectively managing costs to California consumers and businesses
- Leadership
  - Implement a program that provides a strong model for federal legislation
PG&E’s Perspective on Offsets

• AB 32 allows covered entities to meet up to 8% of their compliance obligation through the use of offsets.

• PG&E believes that the use of high quality offsets is an effective cost containment tool and an essential part of a successful cap-and-trade program.

• Multiple studies have shown that the costs of the cap-and-trade program are much higher without a robust supply of high quality offsets.

  • **ARB**: allowance prices are forecasted to reach as high as $148 per metric ton in 2020 without offsets, as compared to $25 per metric ton in 2020 with offsets.

  • **EDF**: Costs faced by regulated entities increase by $241 billion through 2020 if offsets are eliminated from the cap-and-trade program.
On April 24, the CPUC issued Decision 12-04-046 which contains requirements for IOU procurement of GHG products:

- Only use offsets verified under ARB approved protocols
  - May buy issued or forward offsets. Payment for forward offsets must be after verification and delivery
- Can only PROCURE up to 8% of annual compliance obligation
- Set procurement limit for all compliance instruments
- Sellers must contractually assume invalidation risk
- All offsets must be purchased:
  - Through a competitive Request for Offer
  - On a CPUC-approved exchange
PG&E’s Actions to Date

- 07/01/11 – Submitted Procurement Plan to Purchase GHG Products
- 02/21/12 – Issued RFO for GHG Allowances and Offsets
- 05/21/12 – Filed Updated GHG Procurement Plan
Thank you

Robert Parkhurst
Long Term Energy Policy
245 Market Street
San Francisco, CA  94105

415-973-1470

Robert.Parkhurst@pge.com