

June 8, 2012

PG&E's Approach to Offsets

Climate Action Reserve Workshop on
Compliance Offsets for Electric Power
Companies





Pacific Gas and Electric Company (PG&E)



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 ³

- 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 ⁴

- 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



CPUC Decision on GHG Product Procurement

- 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

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