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Pacific Gas and Electric Comments on Proposed AB 1110 Implementation

Additional submitted attachment is included below.

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DOCKET 16-OIR-05**California Energy Commission
Dockets Office, MS-4
Docket No. 16-OIR-05
1516 Ninth Street
Sacramento, CA 95814-5512

Re: Docket 16-OIR-05: Pacific Gas and Electric Company's Comments on the July 14, 2017 Staff Pre-Rulemaking Workshop on Updates to the Power Source Disclosure Regulations

Pacific Gas and Electric Company (PG&E) appreciates the opportunity to provide comments to the California Energy Commission (CEC) on the *Assembly Bill 1110 Implementation Proposal for Power Source Disclosure* (Implementation Proposal or Draft Proposal) and the July 14 Staff Workshop on proposed changes to the Power Source Disclosure (PSD) program regulations required by Assembly Bill (AB) 1110 (Ting, Chapter 656, Statutes of 2016). PG&E's comments include the following key points in response to the Workshop:

- The CEC's proposed greenhouse (GHG) emissions accounting methodology does not accurately reflect the GHG emissions used to provide electric services, as required by AB 1110;
- The Power Content Label (PCL) needs to account for all GHG emissions associated with meeting a load serving entity's (LSE) load, regardless of whether that generation is owned, contracted, or purchased from the market;
- An LSE-based GHG emissions calculation methodology that more accurately captures the GHG emissions from fossil resources used to meet each LSE's load in a given hour should be adopted; and
- PG&E is supportive of the CEC's proposed treatment of unbundled renewable energy credits (RECs) in the PCL.

PG&E looks forward to continuing to work with staff on this important effort until the anticipated adoption of revised guidelines in 2018.

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I. GHG Accounting Methodology Must Accurately Reflect Sector-Wide GHG Emissions

Senate Bill (SB) 1305 (1997) established the PSD program for retail sellers and local publicly owned utilities. AB 1110 (2016) expanded the PSD program to require retail sellers and local publicly owned utilities to “disclose accurate, reliable, and simple to understand information on the sources of energy, and the associated emissions of greenhouse gases, that are used to provide electric service.”¹ Until AB 1110 was passed in 2016, California did not require any LSE-based GHG emissions calculations to be reported in any venue. In the Implementation Proposal, staff presented a methodology for calculating LSEs’ GHG emissions. It is essential that this first-ever codification of an LSE-based GHG accounting methodology be fair and accurate for all parties.

While PG&E appreciates the complexity of this task, the Draft Proposal does not accurately reflect the actual GHG emissions used to provide electric service. While PG&E agrees with the CEC that the PCL should use the California Air Resources Board’s (CARB) Mandatory Reporting Regulation (MRR) to develop the new GHG emissions intensity requirement, CARB’s source-based GHG emissions accounting methodology does not directly translate to the LSE-based calculation required by AB 1110. This is due to the fact that LSEs’ portfolios of supply resources are not necessarily matched with their consumption profiles, so the LSE’s generation is not necessarily used to serve their load. In order to provide customers with an accurate representation of the GHG emissions associated with LSEs meeting their load, the CEC should consider a more granular and precise GHG accounting methodology.

PG&E has identified the following three issues with the CEC’s proposed GHG emissions intensity calculation:

- CEC staff propose to calculate an LSE’s GHG emissions based on the generation resources owned or contracted by that LSE, rather than calculating the GHG emissions of the generation incurred to meet an LSE’s load.
- CEC staff propose using CARB’s unspecified power emissions rate of 0.428 MT/MWh for both CAISO market power and unspecified imports. This may over count LSEs’ GHG emissions associated with CAISO market power, particularly as California’s unspecified system power becomes cleaner.
- CEC staff propose applying the CARB unspecified power emissions rate to net imports, while CARB’s GHG accounting protocol applies this emissions rate to gross imports. This will lead to increased undercounting of LSEs’ GHG emissions in the future as the export of renewable generation increases.

In order to meet the objective of the PCL, the CEC’s methodology needs to result in the accurate accounting of the aggregate GHG emissions used to provide electricity service to customers in California. Therefore, the total annual GHG emissions summed over all LSEs’ PCLs should be consistent with CARB’s annual statewide electric sector calculation based on source-level and electricity importer reporting. Only by ensuring alignment with CARB can an LSE-based reporting mechanism provide critical information in support of reaching the State’s climate goals. However, the CEC-proposed methodology does not accurately capture all of the GHG emissions associated with electricity service in California. It has been questioned whether this rulemaking has the

¹ Public Utilities Code 398.1(b)

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authority and direction to address LSE GHG emissions reporting on anything other than an annual basis. AB 1110 does not direct GHG emissions calculations to only take place annually and limiting accounting to such a methodology is strongly discouraged.²

In Section III below, PG&E proposes a new methodology that would address the three issues above and allow for a more accurate accounting of GHG emissions in support of the state's climate goals.

II. CEC Proposal Incentivizes LSEs to Rely on Market Purchases to Serve Load Instead of Integrating GHG-Free Resources

The CEC's proposed methodology incentivizes LSEs to minimize their calculated GHG emissions intensity by procuring GHG-free resources even if the generation profile of those resources does not correspond to their load profile.

The Implementation Proposal's methodology is based on an annual accounting of an LSE's owned or contracted generation. Furthermore, this proposed methodology would allow for GHG emissions associated with unspecified sources to be "netted out" by owned or contracted GHG-free generation on an annual basis. With regards to the State's climate goals, it is irrelevant whether the GHG emissions emitted to serve an LSE's load result from resources under contract or market purchases. Therefore, the CEC methodology needs to account for all GHG emissions produced in serving an LSE's load, regardless of whether that generation is owned, contracted, or purchased from the market.

As written, the Implementation Proposal would incentivize LSEs to build resource portfolios that do not match their load because it significantly undercounts the GHG emissions associated with the portion of an LSE's portfolio that relies heavily on market purchases. For example, an LSE can make substantial market purchases to serve its load and not be required to report those associated emissions, as long as that LSE contracts enough GHG-free generation to offset those market purchases. Under the CEC's proposed methodology, market purchases are "netted out" on an annual basis. This incentivizes LSEs to rely heavily on the market to serve their load while dis-incentivizing LSEs from contracting with resources that better match load. This misalignment will increase the reliance on market purchases and obscure the actual GHG emissions associated with those market purchases. Moreover, this proposal reduces any incentive for each LSE to address its own renewable integration needs. The CEC's methodology should be revised to ensure that all of California's electric sector emissions are properly allocated to reflect how each LSE provides electric service.

² AB 1110 specifies in Public Utilities Code 398.2(d) that, "[p]urchases of electricity from specified sources' or 'purchases from specified sources' means electricity transactions that are traceable to specific generation sources by any auditable contract trail or equivalent, such as a tradable commodity system, that provides commercial verification that the electricity source claimed has been sold once and only once to a retail consumer. Retail suppliers may rely on annual data to determine whether a transaction meets this definition, rather than hour-by-hour matching of loads and resources." PG&E understands this last sentence is intended to inform how an LSE calculates the portion of its portfolio that is derived from specified resources. However, the GHG emissions intensity calculation required by AB 1110 is a distinct requirement to which this last sentence does not apply.

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III. PG&E's Proposed Approach to LSE-Based GHG Accounting

The PCL should closely represent the sources of energy used to meet each LSE's actual load. To the extent that an LSE relies on the system's fossil resources to meet load, this should be reflected in the GHG emissions intensity calculation. To achieve this, PG&E proposes an LSE-based GHG emissions calculation methodology that more accurately captures the true GHG burden associated with each LSE's load in a given hour. PG&E's proposal allocates the GHG emissions associated with the system's dispatchable fossil generation to each LSE based on how they utilize the system. The GHG emissions associated with contracts for non-dispatchable resources, such as coal imports and combined heat and power (CHP), shall remain with the individual LSEs.

PG&E's proposed methodology includes a two-step approach for LSE GHG accounting:

- 1) Calculate hourly electric system GHG emissions.
- 2) Allocate those emissions to individual LSEs using a new metric: clean net short (CNS).

The first step calculates hourly system GHG emissions. This could be done by developing a system hourly proxy for GHG emissions (e.g., fuel consumption).

The next step allocates the total hourly emissions to individual LSEs based on their use of the system in each hour. To accomplish this, PG&E proposes a new metric, CNS, which is defined to be the megawatt (MW) difference between load and the GHG-free and non-dispatchable generation for each hour in the year. For a specific LSE, the CNS is the difference between the LSE's hourly load and its hourly generation from owned or contracted GHG-free and non-dispatchable resources. On a system level, the CNS is the difference between the total system load and the total GHG-free and non-dispatchable generation for each hour.

The CNS gives credit to an LSE's owned or contracted GHG-free generation by subtracting that generation directly from the LSE's load. The LSE's CNS indicates how many remaining MW of GHG-emitting resources an LSE is using to serve its load in each hour. The LSE's hourly CNS is then compared to the hourly system CNS to determine what ratio of the hourly system GHG emissions should be assigned to that LSE.

As an example, consider an LSE that has 1,000 MW of load in a given hour. If the LSE's owned/contracted resources produce 700 MW of GHG-free generation and 50 MW of non-dispatchable CHP in that hour, then the LSE's CNS is 250 MW for that hour. If the aggregate system is using 5,000 MW of fossil generation in that corresponding hour, then the LSE is allocated 250/5,000 (or 5%) of the system's total GHG emissions for that hour, plus all GHG emissions associated with that LSE's non-dispatchable CHP resources. This method fairly and accurately links the accounting of GHG emissions to each LSE's direct use of GHG-emitting resources to meet its load.

PG&E's proposed methodology better aligns with CARB's MRR since it utilizes in-state electricity generator data to determine system emissions, rather than utilizing the unspecified emissions rate for CAISO market purchases. Additionally, this method provides a fair assignment of system GHG emissions to the actual loads that contribute to the need for system generation. Using this method will ensure the annual PCL that customers receive with their bill includes a more accurate disclosure of

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the GHG emissions associated with the actual electricity delivered to them. Furthermore, this method will better incentivize LSEs to reduce their GHG emissions intensity by taking actions that actually reduce system emissions, instead of incentivizing LSEs to increase their market purchases.

IV. PG&E Supports the CEC's Proposed Treatment of Unbundled RECs

PG&E supports CEC staff's proposal to exclude unbundled RECs from both the power mix and the GHG emissions intensity calculation because unbundled RECs do not represent actual delivered energy.

While the CPUC has broadly defined a REC to include all environmental attributes associated with renewable generation, including avoided GHG emissions, the CPUC also determined that these avoided GHG emissions are retired with the REC when it is used for RPS compliance, and therefore that the avoided emissions value of a REC available to be used as an offset in GHG compliance programs is zero.³ While purchased RECs include the GHG attributes of the associated generation, these attributes are retired with the REC and are not available for use in the GHG reporting programs.

Furthermore, PG&E agrees with staff's proposal to only disclose retired unbundled RECs in a footnote below the PCL table. These retired unbundled RECs should only be reported in the footnote if they are eligible for RPS compliance (i.e., if they fall within an LSE's portfolio balance limitation for unbundled RECs).

V. PG&E Supports the CEC's Proposed Treatment of Asset Controlling Suppliers

PG&E supports the CEC's proposal to allow the system mix emissions factor from asset-controlling suppliers (ACS), such as Powerex and Bonneville Power Administration, to be assigned to ACS transactions for the purposes of calculating an LSE's GHG emissions intensity.

VI. Statutory Due Date Should be Modified to Align with Audit Schedule

In response to Staff discussion questions at the Workshop, PG&E's first full billing cycle of the third quarter ends in August. PG&E broadly encourages required public disclosures be aligned to occur after the required audits of PCL data are complete. Additionally, if reporting requirements and associated audits become more rigorous and time intensive, PG&E encourages any changes to due dates to reflect the associated reporting burden.

³ The CPUC adopted a definition for a Renewable Energy Credit used to comply with the RPS Program in Decision 08-08-028. On page 45, footnote 77 in the definition of a REC says, "Avoided emissions may or may not have any value for GHG compliance purposes. Although avoided emissions are included in the definition of the REC, this definition does not create any right to use those avoided emissions to comply with any GHG regulatory program."

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VII. Conclusion

PG&E appreciates the opportunity to comment on the July, 14 2017 pre-rulemaking workshop on proposed changes to the Power Source Disclosure program regulations and looks forward to continued participation in this process.

Sincerely,

/s/

Wm. Spencer Olinek