

**DOCKETED**

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**2019 Draft Scoping Memo Comments**

*Additional submitted attachment is included below.*

March 1, 2019

**VIA ELECTRONIC FILING**

California Energy Commission  
Docket Unit, MS-4  
Re: Docket No. 19-IEPR-01  
1516 Ninth Street  
Sacramento, California 95814-5512

Re: 2019 Integrated Energy Policy Report (IEPR): Comments of Pacific Gas and Electric Company on Draft Scoping Memo

Pacific Gas and Electric Company (PG&E) appreciates the opportunity to submit these limited comments on the draft Scoping Memo for the California Energy Commission's (CEC) 2019 Integrated Energy Policy Report (IEPR). As in past IEPRs, the scope of the proceeding is quite broad and focuses on emerging and existing energy policies. PG&E's comments focus on three areas: 1) financially healthy utilities are needed to advance California's clean energy future; 2) renewable natural gas and hydrogen can help achieve long-term greenhouse gas emission reduction goals; 3) continued inter-agency coordination to implement Senate Bill (SB) 100 is needed; and 4) flexible and adaptive strategies are needed to increase resilience to climate change.

#### **A. Financially Healthy Utilities are Needed to Advance California's Clean Energy Policies**

The draft Scoping Memo appropriately recognizes that PG&E's proposed reorganization has far reaching implications, that it is pending before federal bankruptcy court, and that it is being monitored by the California Public Utilities Commission and as such will not be discussed in detail in the 2019 IEPR. PG&E agrees that its bankruptcy proceedings should not be addressed in detail in the 2019 IEPR. However, in its review of other emerging energy policies like decarbonization of transportation and buildings, the CEC should recognize the importance of having financially healthy utilities to achieve the state's clean energy goals in the most affordable way for customers.

A key characteristic of a normal, financially healthy utility is a stable investment-grade credit rating, which is essential to a utility's ability to borrow on reasonable terms. Sub-investment-grade ratings as exist today have extremely negative impacts on the cost for borrowing from the marketplace. As observed during the 2000-2001 energy crisis, these harms include significantly higher debt costs, possible inability to access the debt markets, impairment or loss of the ability to engage in wholesale purchases of electricity and gas, and loss of trade credit resulting in the need to post collateral, which increases

working capital requirements.<sup>1</sup> PG&E and its customers are already experiencing, or are set to experience, those harms again following the rating agencies' recent decision to downgrade their ratings of PG&E's debt to sub-investment-grade status. Recent guidance from S&P Global on February 19, 2019 questioned whether all of California's investor-owned utilities would be creditworthy at the start of the 2019 wildfire season.<sup>2</sup> Counterparties to contracts with PG&E have also been downgraded, given their reliance on PG&E to pay them.

PG&E invests about \$6 billion annually in infrastructure and it is making critical investments and further enhancing its operations to make communities safer and more resilient to climate change. Higher borrowing costs will make these investments more expensive for customers. It may also be more difficult for contractual counterparties to arrange financing when PG&E is in bankruptcy, given many banks will base financing decisions for long-term investments on the creditworthiness of the utility responsible for paying the counterparty.

Finally, uncertainty about the treatment of future wildfire costs could cause uncertainty and delay in resolving the Chapter 11 process. That could cause the rating agencies and investors to have a more negative view of PG&E's business and regulatory risk. Currently, rating agencies and investors are uncertain about how future wildfire risks and costs will be addressed, which is a key factor that has led them to view the business climate for PG&E as more negative than they had in the past. The rating agencies may view the company's business risk more favorably once this issue is resolved, which in turn would facilitate achieving the targeted investment-grade credit ratings and lower borrowing costs.

## **B. Renewable Natural Gas and Hydrogen Can Help Achieve Long-Term Greenhouse Gas Reduction Goals**

Natural gas remains a critical and essential resource to Californians, supporting households and businesses with affordable space and water heating and other services while providing critical responsive electric generation to accommodate intermittent renewable electricity resources.

PG&E supports California's greenhouse gas reduction goals and recognizes the significant role California's utilities can play in accelerating the decarbonization of both the building and transportation sectors. Achieving these objectives may require some changes to how PG&E's gas system is used to serve end customers. Specifically, PG&E can support California's long-term GHG reduction goals by enabling the use of

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<sup>1</sup> See D.03-12-035, pp. 42-44; see also Testimony of Paul Clanon (July 25, 2003), I.02-04-026, pp. 13-15; Testimony of Kent Harvey (July 25, 2013), I.02-04-026, pp. 6-11.

<sup>2</sup> See February 19, 2019 S&P Global Credit FAQ "Will California Continue to Have an Investment Grade IOU?"

renewable natural gas and hydrogen to meet end-customers' needs. Particular opportunities may lay in the use of the natural gas delivery system to support reductions in short-lived climate pollutants, like methane, produced by dairies, landfills, wastewater treatment facilities, etc. By capturing this methane and using it to replace fossil natural gas, PG&E can play a critical role in California's climate goals while also preserving the vital role that the gas delivery system plays in many sectors of California's economy, including support for intermittent renewable resources.

PG&E is encouraged by the growing use of renewable natural gas and hydrogen around the globe. Countries like Germany, France, and South Korea are embracing renewable natural gas and hydrogen as a tool to decarbonize natural gas pipeline systems, integrate intermittent renewable energy resources, provide long-term energy storage, and reduce pollution from transportation. PG&E believes that California can further enhance its role as an environmental stewardship leader by embracing the use of renewable natural gas and hydrogen as a clean energy source for the future.

Moving forward, it should also be noted that all of E3's PATHWAYS scenarios that meet California's long-term GHG reduction goals, including the High Electrification Scenario, assume that natural gas, renewable natural gas, and hydrogen all play a role through 2050.<sup>3</sup> The 2019 IEPR should include discussions on the role the gas delivery system can play in decarbonizing the transportation and building sectors.

### **C. Continued Inter-Agency Coordination on Implementing SB 100 Is Necessary**

PG&E appreciates the intention of the CEC to use the 2019 IEPR to "explore the 2045 goal set by Senate Bill 100 to become near-zero-carbon". SB 100 set a planning goal to reach 100% of retail sales from RPS and zero-carbon resources by 2045, allowing sufficient time for the California energy agencies to thoroughly study the unique set of challenges posed by this target. SB 100 also requests the CPUC, CEC, and CARB, in consultation with all California balancing authorities, to "issue a joint report to the Legislature by January 1, 2021" that includes a review of the 100% zero carbon by 2045 policy focused on technologies, transmission, safety, affordability, and reliability (PU Code 454.53(d)(2)). This report should include study by the agencies of a variety of policy and technology pathways to reach 100% by 2045 and consider the reliability, cost, and environmental/emissions impacts across these pathways. Technology pathways should consider all current and potentially feasible zero-carbon resources,

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<sup>3</sup> Deep Decarbonization in a High Renewables Future [https://www.ethree.com/wp-content/uploads/2018/06/Deep\\_Decarbonization\\_in\\_a\\_High\\_Renewables\\_Future\\_CEC-500-2018-012-1.pdf](https://www.ethree.com/wp-content/uploads/2018/06/Deep_Decarbonization_in_a_High_Renewables_Future_CEC-500-2018-012-1.pdf)

including less conventional technologies such as offshore wind, biogas use in natural gas plants, and carbon capture and storage technologies.

Given the scope of the challenges associated with studying and implementing SB 100, PG&E encourages inter-agency coordination between the CEC, CPUC, CARB, and CAISO. PG&E notes that the CPUC has also proposed to study SB 100's 2045 goal in the 2019-20 IRP cycle and any robust analysis of SB 100's reliability impacts should involve the CAISO. PG&E requests the CEC provide further information on what analysis will be done in the 2019 IEPR, how this analysis will be coordinated with the other state agencies, and how the agencies are working to develop a comprehensive SB 100 study and implementation plan, including the coordination needed to issue a joint report to the legislature by January 2021.

#### **D. Flexible and Adaptive Strategies are Needed to Increase Resilience to Climate Change**

PG&E agrees that continued state and stakeholder actions are needed to address major climate risks to the state's communities and energy system. PG&E acknowledges the importance of studying and developing flexible and adaptive strategies for increasing resilience.

PG&E supports ongoing research to improve climate resilience. As various sectors in California, including the energy sector, develop plans to manage and mitigate climate risk, PG&E encourages a discussion on the need for a centralized approach to setting guidance regarding the most appropriate data, models, and tools to improve decision-making and risk reduction.

#### **E. Conclusion**

PG&E looks forward to continued participation in the CEC's IEPR process.

Sincerely,

/s/

Valerie J. Winn