

GHG Emissions Costs

- The DTE Stockton PPA has a provision that allows the parties to negotiate the cost responsibility for GHG emissions compliance costs (not including capital costs) in the event that biomass has a GHG emissions compliance responsibility in the future. There is a separate contractual requirement for GHG emission-related capital costs.
- The Draft Resolution requires PG&E to obtain approval through a tier 3 advice letter for any amendment that would require PG&E customers to assume cost responsibility for GHG emissions costs.
- The Draft Resolution should be revised to allow PG&E to recover the GHG emissions compliance costs in the same manner as adopted for conventional facilities. An advice letter filing should not be required. For capital costs related to GHG emissions, PG&E would file a tier 3 advice letter.
- The Commission has previously approved PPAs for conventional gas fired resources in which the costs associated with GHG emissions compliance are allocated to PG&E as the buyer. For example, in the proceeding to implement AB 1613 for small combined heat and power facilities, the Commission determined that “[i]n a carbon constrained system, electricity’s carbon content is another attribute that the facility is selling. As such, we agree with staff that the Buyer (and ultimately benefitting customers) should bear reasonable GHG compliance costs for the electricity delivered to the grid.” *See* D.09-12-042 at p. 45.
- In April 2009, the Commission approved the Second Amended PPA for the Russell City Energy Center. Section 9.3 of the Second Amended PPA generally provides that PG&E shall reimburse seller for GHG compliance costs (the actual section is much more detailed). In the Russell City proceeding, a number of intervenors raised concerns about this provision, arguing that it was “unreasonable because the actual [GHG compliance] costs were unknown.” *See* D.09-04-010 at p. 20. The Commission rejected these arguments and held that, taken as a whole, the PPA provisions were reasonable. *Id.*
- In October 2009, the Commission approved the recovery through ERRA of all payments made under the Mariposa PPA. *See* D.09-10-017, Ordering Paragraph 1.d. Under the Mariposa PPA, PG&E is responsible for “costs of complying with regulations associated with CO2 emissions from the project. Compliance costs are defined as costs to comply with any federal or state CO2 program. *See* PG&E Prepared Testimony, Chapter 3, at p. 3-13, lines 15-23 (submitted April 1, 2009). The recovery of these compliance costs was approved upfront by the Commission when it approved the Mariposa PPA.

- In the LTPP proceeding, the Commission will consider GHG products that the utilities are authorized to procure and the upfront standards to determine the reasonableness of the purchases of these products. *See* R.10-05-006, *Preliminary Scoping Memo*, at p. 17, n. 30.
- The Commission should take the same approach with the DTE Stockton PPA. The resolution should provide that any future GHG emissions compliance costs allocated to PG&E shall be recoverable through ERRRA. The review of whether PG&E purchased approved GHG products in accordance with the adopted upfront standards would then be conducted in ERRRA consistent with the costs associated with conventional facilities. No reason exists to treat any GHG emissions compliance costs associated with this biomass facility differently.