



December 16, 2010

Chairman Mary D. Nichols
California Air Resources Board
1000 "I" Street, 25th Floor
Sacramento, CA 95814

Commission President Michael R. Peevey
California Public Utilities Commission
505 Van Ness Avenue, 5th Floor
San Francisco, CA 94102

Dear Chairman Nichols and President Peevey:

Subject: GHG Treatment of Out-of-State Renewables

SCE, PG&E, SDG&E, SMUD and NCPA are very concerned that the California Air Resources Board's (ARB's) draft Cap-and-Trade and proposed amendments to the Mandatory Reporting Regulations do not recognize the greenhouse gas (GHG) reduction benefits of certain renewables contracts entered into to meet the State's renewables goals. The current version of the draft reporting regulations provide no mechanism to account for the zero GHG attributes of many out-of-state renewable contracts and, as a result, would result in regulated parties having to retire allowances for these renewables resources. If this deficiency is not resolved, our customers and California will face the following:

- Hundreds of millions of dollars in increased costs to retire allowances for imported energy from contracts with renewable resources that are otherwise counted as renewable by State law.
- Inability of the State's 20% and 33% renewables programs to achieve the GHG reductions estimated by ARB since certain renewable contracts would be treated as GHG emitting.
- Upward pressure on allowance prices given increased demand for allowances needed to cover these renewable contracts.

The State's renewable programs are already identified by ARB as the highest cost GHG reduction measure and these costs should not be unnecessarily increased. California utility customers should receive credit for the GHG attributes that they have already purchased through their renewable contracts and should not be required to pay twice for their GHG benefits.

Fortunately, there is a workable solution to this problem—the use of the State’s statutorily required system using WREGIS and renewable energy credits to count out-of-state purchases as RPS-eligible within the ARB’s Mandatory Reporting Regulation. WREGIS has a deep foundation within the CPUC’s decisions and California’s renewables program. Accordingly, we urge the ARB to use this system to ensure that all renewable purchases eligible under the RES and RPS are credited as zero GHG.

Thank you for your attention to this issue. We are readily available to work with you or your staff in order to resolve this critical matter.

cc: James Goldstene
Dr. Kevin Kennedy
Carol Brown
Andrew Schwartz
Scott Murtishaw