

PG&E's GHGRFO

Overview for ARB

January 26, 2012



Please Do Not Distribute

Reasons for GHG RFO

- ARB's first allowance auction scheduled for August 2012
- PG&E must buy compliance instruments in 2013-2014 for:
 - Utility-owned facilities including gas compressor stations
 - Select tolling agreements and Qualifying Facility (QF) PPAs
 - Electricity imports
- RFO gives PG&E opportunity to receive offers for compliance instruments before the auction
 - Industrial-allocated allowances cannot be sold at auction
 - Offsets cannot be sold at auction

GHG Procurement Plan

- Execution of any transaction contingent upon CPUC approval of PG&E's GHG Procurement Plan (filed in Track III of the LTPP proceeding)
- GHG Procurement Plan specifies procurement of offsets under certain conditions:
 - To meet up to 8% of compliance obligation
 - Procurement through secondary or bilateral markets, including annual GHG RFO
 - PG&E will assess risk of invalidation for each offset project

Eligible Products and Terms

- Seeking ARB-issued GHG compliance instruments as follows:
 - Allowances
 - Offsets
 - From single offset project or aggregated pool of offset projects
- Participants
 - Must specify vintage year(s)¹ and delivery year(s)²
 - Can include multiple vintage and/or delivery years including future deliveries
 - Minimum offer size: 25,000 mt CO₂e (may be delivered over multiple years)

¹ Vintage year refers to the year the allowance/offset is issued by ARB

² Delivery year refers to the year the allowance/offset is transferred by the Participant to PG&E

Evaluation Criteria

- Market Valuation (MV): How an offer's price compares to PG&E's forward price curve for GHG allowances
- Project Viability (PV): The likelihood that an offset project will deliver offset credits at full contract quantity and on schedule
- Supplier Diversity: PG&E will use the information provided to determine how an offer will assist PG&E in reaching its enterprise-wide supplier diversity goals
- Credit: The Participant's capability to perform all of its financial and financing obligations under the Agreement
- Modifications: The extent, materiality and cost impact of any of Participant's proposed modifications to RFO requirements and applicable Agreements
- Portfolio Fit: How well the offer's features match PG&E's portfolio needs within the context of Cap-and-Trade compliance, including the 8% usage cap on offset credits

GHG RFO Schedule

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|----------|-----------------------------------|
| Feb 1 | PG&E Issues GHG RFO |
| Feb 15 | Participants' Webinar |
| March 8 | Offers Due from Participants |
| May 15 | Shortlisted Participants Notified |
| June 15+ | Begin Execution of Contracts |