

**Testimony of Nancy McFadden  
Senior Vice President and  
Senior Advisor to the Chairman and CEO of PG&E Corporation**

**Assembly Committee on Natural Resources  
Informational Hearing – Climate Change**

**December 8, 2009**

Good afternoon Madame Chair and members of the Committee. My name is Nancy McFadden, Senior Vice President and Senior Advisor to the Chairman and CEO of PG&E Corporation. PG&E is a gas and electric utility serving one in twenty Americans. Thank you for the opportunity to speak today about PG&E's role in the challenge of climate change.

PG&E has long been committed to leadership on climate change and determining the implications for the company and the world. Through a series of discussions with leading scientific experts and with input from leading economists, policy experts, business and environmental leaders PG&E sought to arrive at an informed and objective assessment of the climate change debate.

Our findings were clear and compelling. The link between greenhouse gas emissions and the Earth's warming climate is convincing, the potential consequences are serious and the need for action is urgent.

We believe action on climate change is part of a strong business model that supports 1) environmental protection and leadership, 2) recognition of the economic impacts of climate change and 3) creating and transforming jobs to support the low carbon economy. To this end, PG&E is committed to proactively taking serious, concrete measures to reduce greenhouse gases, and developing and implementing responsible policies.

We were the first investor-owned utility to support enactment of California's historic climate change legislation: AB 32. Our customers have invested and continue to invest in customer energy efficiency programs and a clean electric generating portfolio, so that our greenhouse gas

emissions are among the lowest of any utility in the nation. The greenhouse gas emissions associated with the electricity we provide to our customers are among the lowest of any large utility in the country, approximately 48% of the CO<sub>2</sub> emitted by the average utility.

At the national level, we are a charter member of the United States Climate Action Partnership, a coalition of 26 corporations and five leading environmental organizations. We have testified numerous times before key Congressional committees on the need for the United States to act on climate change and pass comprehensive climate and energy legislation as quickly as possible. We have also supported numerous pieces of legislation aimed at curbing greenhouse gases, including the Waxman-Markey bill that passed the House in June.

We are not simply talking about an obligation to act responsibly. There are other important economic reasons in favor of addressing climate change. The company was a charter member of the California Climate Action Registry (CCAR) and, in 2002 became the first investor-owned utility in California to complete a third-party-verified inventory of its CO<sub>2</sub> emissions. We believe it is critical that investors, customers, policy makers and other stakeholders have access to information that allows them to assess and understand the relationship between our business and the challenge of climate change – both the risks and the opportunities.

In what some have termed as a “wake up call” for the industry, PG&E believes is an opportunity to create quality jobs, spur innovation and manufacture new technologies. Even more intriguing are investments in potentially game-changing areas such as large-scale energy storage technologies and infrastructure to support electrification of the transportation sector. Already PG&E is making these investments such as our proposal for 250 megawatts of utility-owned, clean solar photovoltaic power – PG&E’s first direct investment in renewable generation in over a decade. The Department of Energy recently awarded PG&E a \$25 million Smart Grid Demonstration grant for a compressed air energy storage project that supports the integration and management of intermittent renewable resources into the electric grid. Next year, PG&E will also launch a Plug-in Electric Vehicle SmartCharging pilot program.

With leadership comes a commitment and responsibility to seek effective solutions on behalf of our customers. As California continues its journey to be a leader in climate change, PG&E stands ready to continue our work with the Legislature, the California Air Resources Board, the California Public Utilities Commission, the California Energy Commission, and concerned stakeholders to ensure the successful implementation of AB 32. PG&E believes this “success” will be defined by how well AB 32 achieves three core objectives:

1. Ensuring **environmental integrity** through mandatory, real and verifiable reductions;
2. **Managing costs to California consumers and businesses** by pursuing cost-effective reduction strategies while recognizing the significant investments many Californians , including our customers, have made and continue to make to reduce greenhouse gas emissions; and
3. **Continuing California’s national leadership role** on climate change by creating a model program that is integrated effectively with regional, national and international programs.

**Put more simply, AB 32 must 1) deliver real results, 2) while keeping costs to Californians and our economy in check, and 3) in a way that carries forward our state’s leadership both in thought and action on climate change.**

We are interested in real results not just because we believe the issue of global climate change demands it, but also because we believe that the move to a lower carbon economy will position our customers and our state well in an increasingly carbon-constrained global economy.

But as we take these actions and address these urgent issues, as a utility serving 15 million Californians, we are also constantly mindful of the potential financial impact of these actions on our customers, and for that matter, all California consumers in these challenging economic times.

To this end, we are encouraged that the ARB is working to complete its overall economic analysis of AB 32 in the next few months and hope that they include in this review a comprehensive analysis of all proposed reduction measures across all sectors of our economy to ensure that we pursue the most cost-effective measures in a comprehensive and coordinated manner. ARB has already shown leadership on this issue by implementing the Low Carbon Fuel Standard and a series of early action measures that span multiple sectors.

In addition to pursuing traditional regulatory programs, the ARB also is considering market-based initiatives to achieve AB 32's objectives. We believe the most effective and efficient of these potential market-based tools is a cap-and-trade regulatory program with broad, regional or national economy-wide participation. We believe a properly designed, multi-sector cap-and-trade system – coupled with our customer energy efficiency, renewables and demand-side management programs – will reduce greenhouse gas emissions, diversify our energy supply mix and help to minimize customer costs.

In addition to achieving AB 32's goals in a cost-effective manner, we believe that flexibility and price protections – such as multi-year compliance periods, offsets and cost-containment mechanisms – will be critical to minimizing costs to California while not compromising results. PG&E supports offsets that achieve real, permanent and verifiable greenhouse gas reductions that meet stringent protocols such as those developed by the CCAR. Offsets reward the deployment of technologies and methods that reduce emissions and facilitate investment in emission reduction practices that would have not occurred otherwise.

Cost-containment mechanisms are also critical. For example, PG&E has said both here and in Washington that an allowance price-collar – setting minimum and maximum allowance prices – can protect against untenably high allowance prices while also ensuring the market's viability. This mechanism can be developed in a way that maintains the overall integrity of the emissions cap, and therefore AB 32's emission reduction objectives. We are encouraged by the ARB for considering these various types of consumer price protections and price-collar options as they move forward with their rulemaking.

Regardless of how AB 32 is implemented, California utility customers will be asked to bear a significant portion of greenhouse gas reduction costs, whether it is through the cost of allowances in a cap-and-trade program or implementation of programs such as increased renewable resources or energy efficiency. For this reason, we believe that a significant portion of emission allowances should be allocated directly to end use consumers via the state's utilities to hold solely on behalf of their customers to help offset the costs of AB 32 implementation.

Allocation of allowances to utilities is the most direct approach to achieve the goals of AB 32 while containing costs to California's utility consumers and businesses. With the oversight of the California Public Utilities Commission or locally elected or appointed utility boards, the utilities can most effectively employ the value of allocated allowances to make investments in direct emission reductions such as energy efficiency and renewables and to effectively manage customer costs. The methodology by which these allowances are allocated can also be structured to recognize the early investments many California customers have made to achieve greenhouse gas emissions rates far below the national average. Rather than diverting allowance proceeds for other unrelated purposes, the allowance value can thus be used to drive true environmental leadership – sustained emissions reductions in an economically sustainable and responsible manner.

In closing, and to our third core objective for AB 32, we believe that the state's climate action and policy must continue to lead the way. Those who say action on climate cannot be taken without unmanageable economic burdens should be quieted by California's example. We look forward to working with the Legislature, the agencies, the Administration, and of course, our customers to make AB 32 a success and keep California at the forefront of climate policy and action.