



The Procter & Gamble Manufacturing Company  
8201 Fruitridge Road  
Sacramento, CA 95826  
[www.pg.com](http://www.pg.com)

October 22, 2018

Clerk of the Board  
California Air Resources Board  
1001 I Street  
Sacramento, CA 95812

*Submitted online*

Re: Procter & Gamble Manufacturing Company Comments on September 4, 2018  
Amendments to Cap-and-Trade Rulemaking

Dear Clerk:

The Procter & Gamble Manufacturing Company (“P&G”) provides the following comments in response to the California Air Resources Board’s (“ARB”) September 4, 2018 Notice of Proposed Amendments to the Cap-and-Trade Regulation. The P&G Manufacturing Company operates the P&G Sacramento plant, which has been operating for more than 60 years and has approximately 120 employees. The plant manufactures, distributes, and provides customer services for natural ingredients including fatty alcohols. The plant also converts coconut oil into a variety of products for use by P&G as well as for sale to other industrial customers. P&G is the only natural alcohol manufacturer in the United States. Competing products come from Malaysia and Indonesia, and the Sacramento plant qualifies as an Emissions Intensive Trade Exposed industry in California. P&G is broadly supportive of the State’s efforts to reduce its GHG emissions. P&G has adopted many of its own sustainability initiatives to reduce its GHG emissions through energy efficiency measures and renewable energy purchases, while at the same time, remaining competitive in a global market place.<sup>1</sup> These comments focus on a narrow cap-and-trade regulatory issue in Section 95894(e) (i.e., “Legacy Contracts”).

In 2014, the Board approved amendments to the Cap-and-trade to address “Legacy Contracts”. The purpose of the legacy contract provisions was to create an incentive for renegotiation of contracts executed prior to 2006 that do not include provisions for GHG cost pass through. In some cases, cogeneration plants serving Electricity Intensive Trade Exposed (“EITE”) steam hosts, qualified for legacy contract assistance. The effect of the legacy contract amendments as applied to EITE entities holding legacy steam contracts is to reduce the steam / electricity purchaser’s cap-and-trade allocation and redistribute the allowances to the cogeneration operator. By redistributing cap-and-trade allowances between private parties, the ARB sought to encourage the renegotiation of these steam contracts to explicitly include GHG costs. However,

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<sup>1</sup> To learn more please visit: <https://news.pg.com/press-release/pg-announces-new-environmental-sustainability-goals-focused-enabling-and-inspiring-pos>.



in attempting to resolve the legacy contract rules, the regulations have not fulfilled the public policy goals of the legacy contract amendments.

According to the Final Statement of Reasons for the legacy contract amendments, the “Board direction was to provide transition assistance, not full coverage of an annual compliance obligation. . . [P]roviding full coverage of legacy contract generator’s compliance obligations would provide a disincentive to renegotiate contracts.”<sup>2</sup> Despite the Board’s direction on this point, in P&G’s experience, counterparties do not have incentive to renegotiate the legacy contracts unless the counter parties are willing to offer something better than the legacy contract award (e.g., more allowances, or changes in terms unrelated to GHG costs). In other words, contrary to the Board’s original intent, the legacy contract provisions have removed any incentive private parties would otherwise have to renegotiate the legacy contracts to explicitly and fairly address GHG costs.

Of particular concern, the Cap-and-Trade 45-day amendments (Sept. 4, 2018 version) includes a new provision that would reallocate an additional amount of “true-up” allowances (95894(e)). The stated purpose of this new language is to account for legacy contract allowances that were withheld due to the assumption that natural gas prices would include GHG costs. It is critical to understand how gas rates actually changed in the 2015 - 2017 period. For example, based on P&G’s review of PG&E’s data response to the California Manufacturers and Technology Association (CMTA) in the current PG&E Gas Transportation and Storage rate case at the CPUC, transport rates (i.e., the rates that are often used as a price index for steam sales contracts) rose by 187% from 2015 - 2017.<sup>3</sup> By comparison, backbone transmission rates decreased in the same period.<sup>4</sup> To the extent that a legacy contract holder actually has cap-and-trade allowances costs, the rate changes during this period has provided such legacy contract holders with the cost recovery they need to cover any GHG costs. The ARB should not seek to reallocate allowances through the changes proposed in Section 95894(e). Instead, the ARB should take a critical look at all legacy contracts and inquire why the parties have yet to renegotiate the contracts. The ARB should confirm that the policy of the Board on this issue is that renegotiation must occur and if not, legacy contract awards may not be granted in the future.

Simon Martin  
P&G Sacramento Plant Manager  
Tel: 916-381-9601  
E-Mail: [martin.sp.1@pg.com](mailto:martin.sp.1@pg.com)

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<sup>2</sup> California Air Resources Board Cap-and-Trade Rulemaking, Final Statement of Reasons, May 2014 at p. 42.

<sup>3</sup> CPUC A.17-11-009, PG&E data response, CMTA Ex. 100 at pp. 2 – 4.

<sup>4</sup> PG&E rates can vary within the selected rate period (2015 – 2017). Generally, rates update two or three times per year. In calculating the estimated 187% increase in transportation rates, P&G compared the rate in effect at the beginning of 2015 to the rate in effect at the end of 2017.