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Ms. Lucille Van Ommering
Air Resources Board
Office of Climate Change
1001 I Street
Sacramento, CA 95814

RE: Reporting and Verification in a Cap-and-Trade Program
Workshop, June 5, 2009

Dear Ms. Van Ommering:

Sempra Energy submits these comments concerning key issues raised during the *Reporting and Verification in a Cap-and-Trade Program* workshop on June 5, 2009. Sempra Energy is encouraged by the progress the U.S. Congress is making in developing legislation which includes a national cap-and-trade program. Given the likely advent of a Federal program, Sempra Energy believes that all participants will benefit if the Air Resources Board (ARB) strives for consistency with the Federal EPA mandatory reporting rule.

The following Sempra Energy comments respond to Staff's discussion and requests for additional thoughts on issues raised in the workshop.

Additional Industrial Process Emissions - Fugitive Natural Gas Emissions

California's mandatory and U.S. EPA proposed reporting regulations for suppliers of natural gas include capturing quantifiable emissions from natural gas transmission and distribution systems. In some cases, where emission factors are equipment specific and supported by detailed quality assurance analysis, emission factors may be valuable in characterizing fugitive emissions from stationary sources. But reporting fugitive greenhouse gas emissions from some equipment associated with natural gas compression and storage operations is currently tenuous at best. Until the reporting and quantification processes are credible and applicable, fugitive emission estimates will not be reliable enough to be applied in a cap-and-trade program.

As ARB acknowledges, U.S. EPA, the Western Regional Air Partnership (WRAP), ARB, the Climate Registry and several industry groups have natural gas reporting protocol efforts underway which are attempting to identify emission factors for some fugitive emissions from linear projects in the natural gas sector. The WRAP states that those activities "are not anticipated to support consistent, accurate reporting of GHG emissions" from gas processing activities and therefore are not currently applicable to cap-and-trade (http://www.wrapair.org/ClimateChange/GHGProtocol/index.html). In any case, given all of these ongoing analyses, Sempra Energy recommends ARB not include any actual emission factors in regulation but instead incorporate by reference any applicable emission factors and include supporting reasoning for the reference.

Reporting Thresholds

Reconciling the reporting thresholds in the WCI recommendations, EPA proposed regulations and ARB regulations should be considered only so long as it is economically efficient within a cap-and-trade program. The U.S. EPA mandatory reporting technical support document considers alternative threshold scenarios and advises that the benefit of lowering the threshold below 25,000 tons does not justify the additional cost. Table 5-3 in the Regulatory Impact Analysis for the Mandatory Reporting of Greenhouse Gas Emissions Proposed Rule indicates that the "marginal cost of moving the threshold from 25,000 to 10,000 is $1.16 per ton and increases the emissions captured by 1%" while increasing the number of facilities required to report from 13,205 to 20,765. Sempra's analysis indicates lowering the threshold will increase the number of affected facilities in its California service territories 3-fold while not capturing significantly more emissions. Lowering the existing threshold can increase the number of reports markedly, but not significantly adjust the total emission inventory. And, if third-party verification is required, lowering the threshold will create a substantial burden on small businesses with an unsubstantiated benefit.

Commercial and Residential reporting prior to 2015

The EPA proposed rule requires local distribution companies to report annual CO_2 emissions calculated from combustion of natural gas provided to their customers. ARB is considering similar inclusion in its mandatory reporting rule and ultimately including commercial and residential natural gas combustion in the California cap-and-trade program.

Although natural gas utilities have no control over their customers' natural gas combustion and are a relatively insignificant source of combustion emissions themselves, natural gas utilities are nevertheless being considered the entity responsible for meeting mandates to reduce residential and commercial combustion emissions. As stated in Sempra Energy's prior comments on this topic, reduction of customer combustion emissions is better accomplished through energy efficiency programmatic requirements. These requirements and programs have helped keep customer gas usage essentially flat since 1990. However, if ARB's economic modeling reveals that it is cost-effective to include commercial and residential combustion in a cap-and-trade program, the mandatory reporting regulation should be revised in 2012 so entities can report their 2013 emissions for cap setting and allowance allocation before 2015. It is prudent to apply lessons learned during the first few reporting periods before revising the Mandatory Reporting Regulations applicable to second compliance period sources.

Thank you for the opportunity to comment.

Sincerely yours,

c: Mr. Manpreet Mattu
Ms. Karin Donhowe