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Hon. Mary D. Nichols  
Chair, Air Resources Board  
1001 I Street  
P.O. Box 2815  
Sacramento, CA 95812

**RE: Proposed Regulation to Implement a Low Carbon Fuel Standard**

Dear Chairwoman Nichols:

Sempra Energy herein submits comments on the proposed Low Carbon Fuel Standard. Sempra Energy appreciates the effort expended by the Air Resources Board staff to develop this complex regulation and generally supports adoption of the regulation as proposed. We do request a limited number of changes that we believe would improve the regulation. Comments on the regulation and the statement of reasons are presented separately:

**Comments on the Proposed Regulation:**

1. Section 95480.1(b) - Opt-in provision. Sempra Energy supports this provision to allow inherently lower carbon intensity fuels to opt-in to the LCFS program as markets develop. However, once all pathway analyses are completed, additional fuels will likely be appropriate to add to the list of fuels set forth in this section. Therefore, Sempra Energy requests that a provision be included in the regulation to allow the Executive Officer to add additional fuels to the list as appropriate, without the need for adoption by the Board of formal amendments to the regulation. This authority has already been provided to the Executive Officer with regard to potential additions or changes to the carbon intensity of fuels listed in the Look Up Table in Section 94486 (b)(1).
2. Section 95485 (c). Credit trading. The statement of reasons at page V-23 states that LCFS credits can be "exported" to other GHG trading programs. However, the regulation as drafted seems to prevent this opportunity. Section 95485 (c)(1)(B) states that a third party that is not a "regulated party" may not purchase LCFS credits. "Regulated party" is defined as an entity subject to the LCFS regulation in 95481(a)(40). It is unclear how LCFS credits can be "exported" for compliance with other GHG trading programs without being "purchased" in some manner by a party that is not a "regulated party." Therefore, paragraphs (c)(1)(B) and (C) need to be clarified in order to accomplish the stated intention of allowing LCFS to be traded by regulated parties outside of the LCFS program. If the intention is to only allow "export" by regulated parties to other regulated parties to support their compliance with non-LCFS GHG regulatory requirements, then this would unduly limit both the markets open to regulated parties to obtain value for LCFS credits (and attendant incentives to create excess credits) as well as the opportunities for non-LCFS parties to have alternative means of meeting their requirements under AB32 .

3. Section 95481(a)(12) and (29) - Definitions of compressed natural gas (CNG) and liquefied natural gas (LNG). As stated by staff in workshops, ARB is currently reviewing the fuel specification for CNG. Also, the current specification for CNG does not explicitly cover natural gas delivered for use as a transportation fuel as LNG. For these reasons, Sempra Energy requests that the references to 13 CCR section 2292.5 be replaced with a reference to the Article of the Code within which these specifications fall rather than a specific section number. This will allow any future changes to the specifications to be made without requiring a correlative change in the LCFS regulation. The references can be changed to "Title 13, Division, 3, Chapter 5, Article 3 of the California Code of Regulations" to accomplish this objective. This will also allow incorporation of any testing exemptions that might be issued pursuant to 13 CCR section 2293.5.

#### **Comments on the Statement of Reasons:**

1. The Statement of Reasons states that the Board will be approving the *Look-Up Table* with the current values. Sempra Energy still has concerns about the accuracy of the pathway and GREET Model data inputs that are used to derive carbon intensities related to natural gas fuels. We appreciate the efforts staff has made to further evaluate these inputs and recognize that this analysis is ongoing. For this reason, we suggest that no values for natural gas fuels be included in the *Look-Up Table* at this time and that the Executive Officer use the authority provided in section 95486 (b)(1) to add these values during the next several months. Alternatively, we suggest that a paragraph be added to the Board Resolution of adoption stating that the values for natural gas fuels in the *Look Up Table* are still being reviewed.
2. On Page III-11 the following statement appears: "LNG is generally transferred to specially designed and secured storage tanks and then warmed to its gaseous state – a process called regasification.(35) The regasified natural gas is generally fed into pipelines for distribution to consumers. However, if the regasified natural gas is intended to be transported or otherwise used as LNG (e.g., in LNG vehicles), it would need to undergo a second liquefaction step, which would substantially increase the fuel's carbon intensity value."

This statement is incorrect as it relates to the Energía Costa Azul (ECA) LNG terminal. In the case of ECA, economics would likely dictate that imported LNG delivered as transportation fuel would simply be trucked to the distribution point from the receiving terminal. In addition, it is not currently possible to deliver ECA send-out gas to liquefiers in California because those liquefiers are not served by infrastructure that can receive ECA gas.

3. Table IV-4 Fuel Pathways Under Development for Use in the LCFS. Sempra Energy does not believe the following two pathways are realistic and therefore they do not require evaluation at this time:
  - "Remote LNG shipped to Gulfport, Texas; regasified and pipelined to California and delivered as Compressed Natural Gas."
  - "Remote LNG shipped to Baja, CA; gasified and pipelined to California; liquefied in California for use as LNG."

We believe two additional pathways that do deserve further evaluation are:

- Domestic natural gas delivered to California from the Rocky Mountain Region and delivered to Southern California utilizing a specific pipeline such as Kern River and liquefied for use as transportation fuel.
- For imported natural gas (LNG) delivery of a 50/50 mix of Russia and Indonesia LNG delivered to the Energia Costa Azul (ECA) Terminal for regasification. The send-out gas will be delivered to California via the existing pipeline network in Mexico.

Thank you for your consideration of these comments and for the willingness of staff to confer throughout the proceeding regarding the proposed regulation.

Respectfully submitted,



c: Mr. James Goldstene  
Mr. Robert Fletcher  
Mr. Dean Simeroth  
Mr. John Courtis  
Mr. Floyd Vergara  
Ms. Anil Prabhu