

Suppliers of Natural Gas: Background and Options

Stakeholder Workshop
June 3, 2013

Logistical Information

- Slides posted at
<http://www.arb.ca.gov/cc/capandtrade/meetings/meetings.htm>
- Email questions to:
auditorium@calepa.ca.gov
- Comments will be accepted at the above website until June 17th

Outline

- Cap and Trade Update and Program Design
- Background and Process
- Scope and Policy Implications
- Utility Proposal Presentation (by utilities)

Cap and Trade Status Update

- Cap-and-Trade Regulation effective January 1, 2012
- Regulatory Amendments effective September 1, 2012
- Emissions Compliance began January 1, 2013
- Linkage Amendments approved April 19, 2013
- Investment Plan released May 14, 2013
- Additional Amendments and Offset Protocols
 - Anticipated Board consideration Fall 2013

Cap & Trade Program Design

- Flexibility to achieve cost-effective GHG emissions reductions
- Puts a price on GHG emissions to provide incentive for efficiency and technological innovation
- Mix of free allocation and auction to lower compliance costs and prevent leakage
- Wholesale and retail prices of energy should reflect GHG costs
- Mix of direct and indirect compliance for energy use

Inclusion of Natural Gas Suppliers: Second Compliance Period

<i>Natural Gas Emissions Responsibility</i>		
<i>Compliance Period</i>	<i>Facility Operators and Electricity Providers with >25KCO₂e</i>	<i>Suppliers of Natural Gas</i>
1 st Period (2013-2014)	Responsible for gas used	No compliance responsibility
2 nd Period (2015-2017) and 3 rd Period (2018-2020)	Responsible for gas used	Responsible for gas delivered to in-state end users other than covered entities (i.e. facility operators and electricity providers with > 25KCO₂e)

Who Has the Compliance Obligation?

- GHG compliance obligation will go to the final deliverer of natural gas, i.e. the “natural gas supplier”
- Investor-owned utilities in most cases:
 - Pacific Gas and Electric
 - San Diego Gas and Electric
 - Southern California Gas Company
- Other pipeline owners including publicly-owned gas utilities and intrastate pipelines

What Does the Compliance Obligation Include?

- The compliance obligation is for every metric ton of CO₂e that would result from full combustion or oxidation of all natural gas delivered to end users MINUS:
 - Natural gas delivered to covered entities (i.e. facility operators and electricity providers with >25KCO₂e)
- Thus no gas will be counted twice
- Only gas delivered in California will be included

Compliance Obligation Calculation Procedures

- Compliance obligation calculation performed by ARB
- Verified data will be used for final compliance obligation determination for each NG supplier
- For each NG supplier, ARB staff will determine a comprehensive list of *covered* facilities receiving gas from the supplier, and determine the aggregate sum of gas delivered to all covered facilities using both supplier and facility reported data
 - GHG emissions from the gas delivered to covered facilities will be subtracted from the NG supplier's total reported GHG emissions

Proposed MRR Revisions for NG Suppliers

- Revisions to facilitate calculation of compliance obligation:
 - Require all Local Distribution Companies (LDCs) to report volume and customer data for all 'redeliveries' to other LDC's and pipelines
 - **Lower threshold for reporting end-user volume and customer data**
 - from ~ 25k CO2e (460k Mscf) to ~ 10k CO2e (183k Mscf)
 - Require that ARB ID of end-user facility be reported if available
- Clarify requirements for intrastate pipeline operators
 - Intrastate pipelines only have to report if there are deliveries directly to end-users

Treatment of NG Suppliers in Current Regulation

- No allowance allocation to NG suppliers
- NG suppliers will need to acquire allowances along with other covered entities

Considerations for Treatment of NG

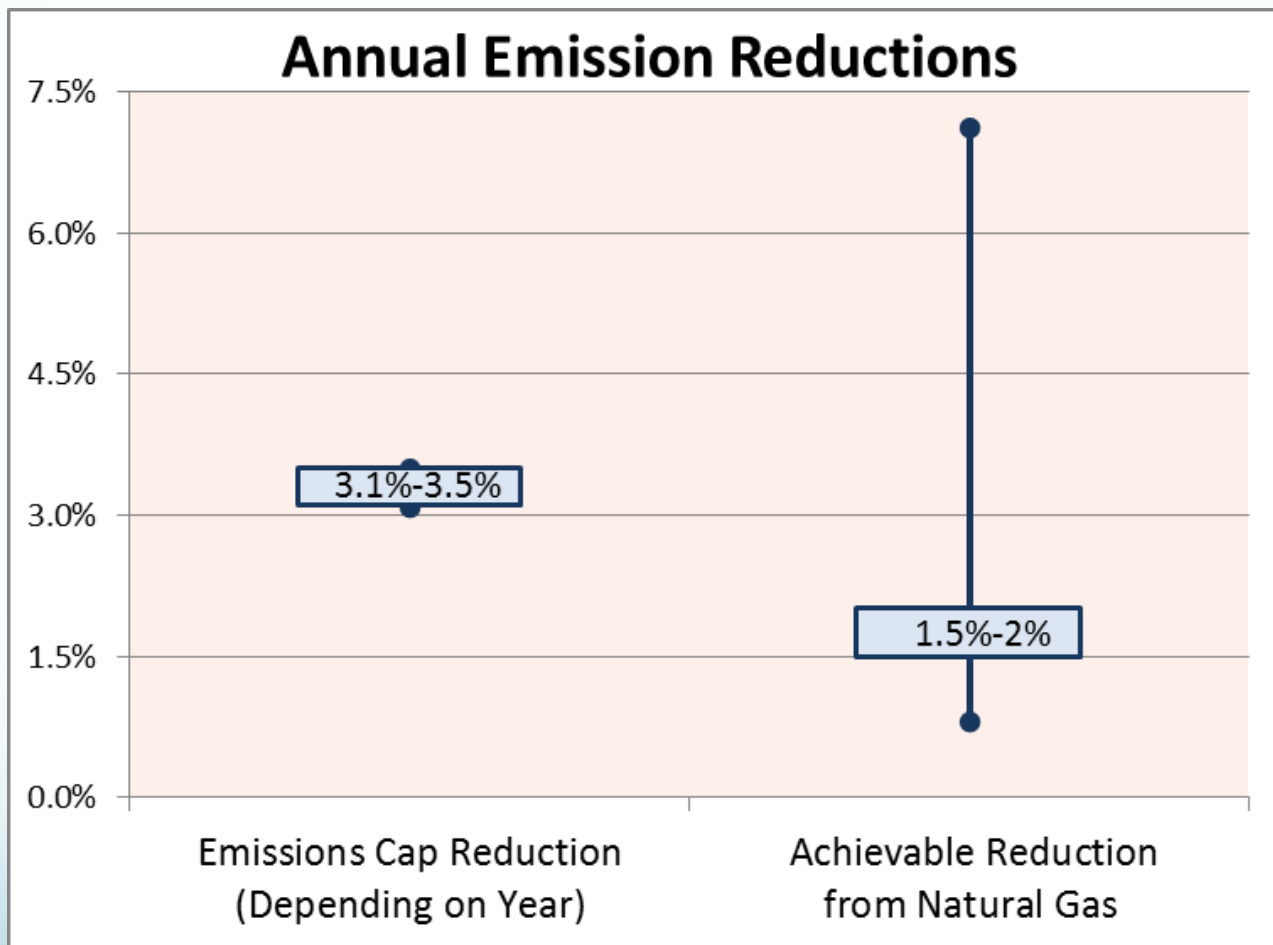
- Encouraging greenhouse gas emission reductions
- Equity among participants in the cap and trade system
- Consistency with the rest of the cap and trade system
- Consistency with long-term policy goals not specific to the cap and trade system
 - Encouraging innovation
 - CHP goals
 - Electric vehicles

Newly Covered Natural Gas Emissions

Newly Covered Natural Gas (2015 Values)			
Percent of Allowance Cap	GHG Emissions	Natural Gas Supplied	Allowance Value at \$15/allowance
13%	53 million MT CO ₂ e	9.8 billion therms	\$800 million

Estimates based on allowance cap and ARB emissions forecast

Potential Reductions in NG Usage in Response to Cap and Trade



Based on emissions caps, IEPR, and studies by the American Gas Association and others

Discussion Questions

- Should ARB retain current approach or provide some allocation to suppliers of NG? If allocate:
 - Should suppliers be required to consign?
 - How should value be returned to rate payers?
- Potential recipients of allowance allocation and revenue:
 - Households?
 - Low-income households?
 - NG-intensive small businesses?
- The CPUC has an open rulemaking, R. 11-03-012, relating to utility revenues resulting from allowance allocation
 - Stakeholders may consider providing feedback to ARB *and* the CPUC

Next Steps

- Comments due by June 17th at:
<http://www.arb.ca.gov/cc/capandtrade/comments.htm>
- Cap and Trade Amendments Workshop on July 18th
- Board Hearing October 24-25th

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- Cap and Trade Regulation – NG Suppliers

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Citations

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Industry Proposal Presentation